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## ECONOMIC POLICY, ORGANIZATION AND MANAGEMENT

### NEW DIRECTIONS FOR ECONOMIC PROGRESS OUTLINED

Moscow EKONOMICHESKAYA GAZETA in Russian No 2, Jan 83 p 15

[Article by V. Pavlenko, deputy division chief of Gosplan USSR, doctor of economic sciences: "The Development of Specialization and Production Integration"]

[Text] The development of our single all-union economy is based on objective, interconnected economic processes--of the social division of labor (in its branch and territorial forms) and its cooperation, and then its integration. As the territorial division of labor deepened and covered new areas it simultaneously signified a strengthening of territorial cooperation--inter-republic and inter-regional.

As was noted by the 26th CPSU Congress, the party's policy envisages an increase in the material and spiritual potential of every republic and, at the same time, the maximum use of this potential for the harmonious development of the entire country. In his report "Sixty Years of the USSR" Yu. V. Andropov emphasized: "The modern productive forces require integration even when it is a matter of different countries. All the more so is it true that they require a closer and skillful unification of the efforts of different regions and republics in one and the same country. The most judicious use of the natural and labor resources and of the climatic characteristics of each republic, and the most efficient inclusion of this potential in the all-union potential--this is what will yield the greatest advantage to each region and to each nation and people, as well as to the entire state."

#### The Specific Nature of Specialization

The territorial division of labor is reflected in the special characteristics of the development of each republic and each economic region above all through their specialization in the single system of our all-union economy. But this process also has another side which becomes steadily stronger as specialization develops. We are speaking about the combination of the interests of all of the union republics and of the interests of each of them with the interests of the country as a whole, about the strengthening of their economic relations.

The specialization of the union republics and of the economic regions is based on objective preconditions. On the one hand, on land, water, mineral, fuel and energy, and other natural resources and geographical conditions, and, on



the other, on economic characteristics. The latter include an economy's level of development and specialization, the labor skills of the population, labor resources, economic and geographic position and transportation conditions, and inter-regional relations.

In the USSR the planned nature of the territorial division of labor is combined with a goal which proceeds from Lenin's nationalities policy of the constant development of all of the nations and peoples inhabiting our country. Economic considerations are supplemented by political ones, and the interests of the country by the interests of each republic. This manifests itself in the fact that in the Soviet Union there is not and cannot be a single union or autonomous republic with a one-sided distorted specialization in one or two products, as is the case in many of the developing countries. Instead of a specialization in any raw material branch, specialized inter-branch complexes are developing in the Soviet Union's union and autonomous republics.

The republics of Central Asia serve as a convincing example of this. The development of their historical branch of specialization--cotton growing--was accompanied here by industrialization and the rapid growth of the service branches of industry: cotton and irrigation machine building, and the production of mineral fertilizers and chemical cotton plant protection agents. The cotton processing branches also developed--cotton ginning, the cotton textile and oil extracting branches, and also textile machine building and the knitwear and garment branches which to a substantial extent operate on the basis of cotton raw materials. In this way, a powerful inter-branch complex was formed.

Similar examples could be cited for the autonomous republics. On the basis of Bashkiriya's petroleum extracting industry, for example, there arose a powerful petroleum refining branch which, in its turn, became the basis for petrochemical and chemical branches and the machine building productions connected with them.

The dynamic growth of specialized inter-branch complexes is increasingly becoming the basis for the development of the union republics and economic regions, and for the economies of all of the nations and peoples. Their contribution to the accomplishment of general state and regional tasks is increasing on this steadily growing and solid basis. As an example, one can cite the role of Kazakhstan in the solution of the food problem.

Along with branches of specialization and inter-branch specialized complexes, other branches of the economy and a production and social infrastructure is developing in the union republics and economic regions. Their growth is aimed at a harmonious and overall economic development, not a closed development, but a maximally completed one in measure with economic validity and in combination with general state interests.

#### The Internationalization of Economic Life

The high levels of development which have been achieved by the Soviet nations are the result of their fraternal aid and cooperation. For example, before the

creation of heavy industry in them, the Central Asian republics were supplied with irrigation equipment, agricultural machinery and tractors, spinning and weaving mills, cement, and mineral fertilizers from the European areas of the RSFSR and from the Urals and the Ukraine. The assistance of qualified workers and engineering and technical cadres was of enormous importance. The change in crop structure in connection with the development of cotton growing required the importation of grain from other regions. The Soviet state's measures in the field of prices, credit, and capital investments also played an exceptionally important role.

Today, when the task of equalizing economic development levels has been basically accomplished, all of the union republics are able to play an important role in the achievement of all-union goals. The country's petroleum and gas base in Western Siberia was created by all of the republics and nations and is developing successfully. It has a decisive place in the all-union system of the territorial division of labor for fuel resources. BAM is being constructed through joint efforts, and large territorial production complexes are being formed in the same way.

Close economic relations on the basis of a socialist division of labor are characteristic, of course, not only for previously backward or newly developed regions. The Ukraine, for example, is an all-union supplier of ferrous metals, many types of machinery and equipment, coal, grain, sugar, vegetable oil, and animal husbandry products. At the same time, it receives from other republics substantial quantities of timber materials, petroleum products, nonferrous metals, chemical industry output, fabrics, and machinery.

The increasing internationalization of economic and all of social life is making it possible to accomplish the increasingly complex tasks of creating the material and technical base of communism and of improving the well-being of the people.

The problem of proportional and balanced development is one of the dynamic problems which has retained its importance at every stage, but on an ever broader base. The attained relationship between the levels of the economic development of the individual republics and regions which characterize the results of the equalization process cannot by itself be preserved for a long time. It has to be maintained and perfected by planning with regard to changes in the siting of the productive forces and of the concrete tasks facing each republic and each region in a given 5-year period.

But this is not the only point. There also remain such objective problems as finding the most correct paths for the development of the individual republics, and a correct combination of the interests of each of them with the general interests of the Soviet people as a whole. Note was taken at the 26th CPSU Congress of the necessity for equalizing the social differences and the cultural and everyday living conditions of people in the territories, having in mind the provision of labor resources for Siberia, the Far East, and the North, and the permanency of cadres there.

By developing in our single economic complex the union republics are able to most efficiently develop their productive forces, utilize their natural and labor resources, create an appropriate economic structure, and ensure its overall development. But when we ask ourselves the question--what is the effect of a complex?--this is not the only point. All-union economic management and planning have made it possible to efficiently approach the siting of the productive forces, have ensured freedom of economic maneuvering, and have made it possible to deepen cooperation and specialization under which the common gain greatly exceeds the efforts of each republic, rayon, and oblast.

And a second circumstance. As the specialization of the economies of the different parts of the country grows, and as the resources of new areas are brought into economic use there is a constant increase in the intensity of the economic relations between them.

These relations are achieved through the unified systems of the production infrastructure which make up as it were the framework of the material and technical base of the country's economic complex. We are speaking about the country's unified energy system, unified transportation system, and unified gas supply system. Along with the traditional economic management for branches and ministries, a wider economic approach in the formation of all-union inter-branch complexes is gaining strength. Their spacial and territorial confinement determines the all-union specialization of republics and regions in our unified economic complex.

#### The Strengthening of the Unified Complex

The 26th CPSU Congress set the task of strengthening the USSR's unified economic complex and the proportional growth of all of its branches and of the economies of the union republics.

The further successful development of the unified economic complex requires a fuller and more skillful combination of the branch and territorial principles in the management of the economy in order to move to a primarily intensive path of economic growth. Thus, a sharp increase in the economic validation of the siting of industrial construction is essential. It will be necessary to complete the development of a general plan for the siting of the country's productive forces, and of plans for the branches, union republics, and economic regions. The branch and territorial plans have to contain materials which validate an expansion of operating and construction of new enterprises. Consequently, these plans are now becoming an effective instrument for improving production siting planning.

The most important thing is an absolute compliance with siting decisions which have already been made, and a resolute struggle against voluntarism and a departmental approach in the siting of large enterprises, especially machine building enterprises in large cities.

An economically valid siting of industrial construction has a manifold significance. It cannot be reduced to a decrease in production costs and in the cost of delivering individual types of output, but actively influences the character of specialization and the degree of the overall development of the economies of the union republics and economic regions, and the growth rates of their production potential and of the use of labor resources. Only essential progressive changes in the siting of a number of branches of industry--ferrous metallurgy, the chemical and petroleum refining branches, construction materials, woodworking, and milling--can ensure a decrease, and then the elimination of irrational freight shipments, and this is of great importance for railroad transport.

No less important is a well-conceived approach to determining the optimal specialization for each republic and each economic region. In the final analysis, it is specialization in the all-union economic system which determines the territorial and, to a considerable degree, the general efficiency of our single economic complex. Such an approach presupposes a careful analysis of all of the capabilities of the republics and regions, and a correct evaluation of the multi-purpose resources contained in them.

The above-examined directions are inseparably bound together. They are different aspects of the single problem of increasing the role of the territorial factor in the intensification of economic and social development. From the rational siting and specialization of enterprises to the economically valid specialization of large territories (regions, republics, territorial production complexes)--such is one of the chief directions in solving this problem.

2959

CSO: 1820/48

## ECONOMIC POLICY, ORGANIZATION AND MANAGEMENT

### MOSCOW TV DISCUSSES MANAGEMENT, LABOR PRODUCTIVITY

Moscow Domestic Television Service in Russian 0835 GMT 3 Feb 83

["Lenin's University of the Millions" program devoted to "economical economics," presented by Pavel Grigoryevich Bunich, corresponding member of the USSR Academy of Sciences]

[Excerpts] [Bunich] Good evening, comrade television viewers, our economic series naturally deals primarily with management of the economy. However, you also know that economics in itself is not the ultimate aim of mankind's existence. In this sense economics may even be called an intermediary product, with the end product being man, his rise and growth. It is very important for us in our programs to elucidate this special aspect of management, namely, how management moulds a person.

Our last program was devoted to the problems of intensifying socialist public production. In it we indicated that the basic factors of intensification are: first, a better utilization of labor resources; and second, a better utilization of fixed capital and capital investments. Now, regarding the third factor, allow me to give the floor to academician Abel Gezevich Aganbegyan, director of the Economics and Organization of Industrial Production Institute of the Siberian Department of the USSR Academy of Sciences.

[Aganbegyan] The third factor that I would like to especially note is the problem of fuel and raw materials, what has happened here? Why such a sudden change; namely, why has the increase of fuel and raw materials been reduced by 250 percent? This is very close to my immediate work since I live and work in Siberia, and most of the time, of course, I study the problems of exploiting resources in Siberia.

If we take the fuel and energy resources, in other words the coal, oil and gas reserves, in our country, then the European part of the country and the Urals, contains only 10 percent, whereas Siberia and the Far East have more than 80 percent of all fuel and energy resources. The population, the fixed capital, the main industries historically have been in the European part of the country and in the Urals. These regions account for approximately 80 percent of all industrial production. Siberia and the Far East produce approximately 12 percent. Thus, an extremely complex task faced the country.

The main fuel and energy base had to be shifted to Siberia, the main emphasis for increasing lumber procurement had to be shifted to Siberia, and so on.

We have engaged in this work very intensively in the last 10 years. I must say that conditions became more complex in the 10th 5-Year Plan period, during which the fuel and energy bases of the European part of the country and the Urals began reducing fuel extraction. On the whole fuel extraction was reduced there by almost 100 million (?standard) tons during the 10th 5-Year Plan. Thus Siberia and a number of other regions were faced with the task of defraying the reduction and increasing their extraction. I must say that generally our country successfully coped with this task under these unprecedentedly complex conditions.

However, all this was not without difficulties, for this was a most complex process, this transfer of enormous capacities [baz] of this huge country. Moreover, capacities directed not only at meeting internal demand, but also that of socialist countries, CEMA countries, who do not have developed extractive industries and who do not have the raw material and fuel reserves that our country has. We supply and trade with these countries in oil, gas, coal, minerals and many other kinds of raw materials.

Of course, this was not easy for us. You know that the whole infrastructure had to be established anew in new regions. There was enormous expenditure on transportation. You know that it is about 3,000 kilometers from Siberia to the industrial centers in the European part of the country. We are building the largest pipelines in the world. Enormous amounts of coal are supplied by railroad. All this means capital and more capital. It turned out that under these conditions it was necessary to spend 250 percent less capital to save 1 ton of fuel, than to extract this same ton.

Economy, through technical progress and material incentives, is simply a vitally important task. We have examined various types of resources, labor forces, capital, capital investments, fuel and raw materials and have seen that we need very serious reconstruction in all areas. We have become accustomed nevertheless, to managing things by emphasizing the expansion method--if more needs to be produced, let us have more fuel, more raw materials, let us have capital, build a new plant: we will produce, we will hire more manpower. It is now no longer possible to manage things this way, and it is not efficient. [passage omitted]

[Bunich] We have already forgotten certain social aspects of management because we have solved them. We have no exploitation by man of man in this country, and of course this unnatural state, when one man exploits another, and overcoming this, is enormously significant in satisfying all the other needs of man. We have no unemployment and thereby a man has not only what is called a source of existence, but also has a place in life. He is not detached from life, he is not a superfluous man. However, in satisfying these issues much still remains that comes under the concept of the social aspect of management.



I would like to stipulate that, with the division of labor, every enterprise of course does something not for itself, but for the whole country. Therefore, when we talk about the social aspect of management, then what the enterprise does economically, what it contributes to the communal kitchen for the whole population, is its primary contribution to the solution of social problems. At the same time, however, there are such social problems that remain the lot of the collective, i.e., that the collective itself must solve. I will name some of these problems.

First and foremost is the standard of living. It is an extremely important task. This standard of living is determined by the person's receiving benefits produced by the whole country and by all enterprises, not only his own. At the same time, however, many positions of the standard of living are determined precisely at a given enterprise. The correctness of determining wages stands side by side, goes hand in hand, with standard of living questions. [Passage omitted on address by N. V. Petrov, director of a Construction Workers' House of Culture in Mikhaylovka, Volgograd Oblast, on recreational activities there.]

We are saying that people's most important requirements are, to an increasing degree, cultural items. This does not only mean going to movies and theaters which represent other walks of life. Major studies are being conducted at certain enterprises on forming a person's cultural makeup. And when we talk about effectiveness of management, it would be highly superficial, a joke, an oversimplification on our part, if we threw out, or worse, if we underestimated those important social criteria with which the actions of management at an enterprise should be assessed. [Passage omitted on Bunich introducing film report on social and cultural services provided by an unidentified enterprise and an interview with a party committee secretary.]

A sociological survey was conducted some years ago in Leningrad, when the workers themselves were asked various questions. It so happened, although I have my doubts as to what extent these figures can be believed, that material rewards were ignored, that is, they were not put first, or second, etc. Labor conditions were considered most important. Not exactly comfort--this is a very lofty word, and generally there is still probably a long way to go until we attain comfort in labor--but labor conditions were rated first and the creative content of labor was rated second.

I feel that material things were put aside perhaps for a number of reasons. Perhaps because we pay such good wages, in many ways regardless of whether a person works well or poorly, so that he is no longer aware of it to the extent that he would be if he worked poorly and earned nothing.

We have many letters that say that the human factor should be taken into account. We received such a letter from Comrade (Golomanovskiy) from Rostov-Na-Donu. He suggests that the human factor should be taken into account more. He is quite right here, but I feel that the very word human factor may perhaps set us off in a slightly wrong direction. The fact is that when one talks about the human factor one has in mind how a person should be utilized in order to obtain the best efficiency. In other words, he is considered in

turn not as an ultimate end but as a means for attaining this end. In reality, of course, the social effect has a reverse influence on the economy. He will be talking about this, but nevertheless an equals sign cannot be put between these two sides. One cannot say that this reversal of the social effect on the economy must without fail be not less than what we spend on the social effect. All the same, this social effect is the highest criterion and therefore, for the time being, it is better if we talk about the person as an end, as the most important social item, and not only about the fact that if we treat the person well he will repay this a hundredfold and labor productivity will rise as well.

Moreover, when this letter speaks about the human factor, it somehow reduces it to the fact that this person should be given more stick and no carrot. It says here: If we take the customary old carrot and stick method, then at least you should punish overexpenditure of raw materials, but under no circumstances reward economy.

If I were (?forced) to choose between these two things, I would choose the carrot. Only when the carrot unfortunately turns out to be insufficient for some people, then one also has to add the stick to it. We do this so far as it is necessary, and many of the measures currently implemented are directed at this, regarding those people who in no way respond to the carrot. [Passage omitted on film report noting the importance of creating good conditions for highly productive labor and a talk by P. S. Belikov, manager of the Saratov Motor Vehicle Cargo Transport Production Association No 2, on violations of labor discipline.]

[Bunich] The idea of the influence of management on social questions is a very integrated and broad idea. Creative labor: You know that here man has the machine, and therefore the matter of implementing creative labor--and creative labor is a human requirement, just as natural as eating, sleeping, breathing and so on--and conditions for it are created primarily at the enterprise.

Hugo once said that to think means to labor. The idea that to think means to labor here is that the thinking process is not a freak of the imagination, that a difficult life is a horrible drudgery to which a person--this creative person--is doomed. However, in line with the development of our productive forces, another formula, the contrary formula, becomes more and more important, namely, that to labor will mean to think, and when it becomes so, then for each person labor will become a real pleasure.

Aristotle once said that a vacuum does not occur in nature. Subsequently, many scientists, most notably Torricelli, corrected him, proving that vacuums do exist in nature. However, it is true that human nature does not tolerate a vacuum in life, a vacuum in work and a vacuum of substance and when we speak of creative labor, it should always be understood that this is one of the most important social aspects of direct management at enterprises.

Management and ideology. Can one imagine passive management that is in no way related to ideology? This would be a half-baked management, and perhaps



deserves a worse definition. Management without fail utilizes ideological levers, and with these levers ideologically raises man, and raising man ideologically is raising man generally, that is to say it is an independent and very important task.

Whether a man goes to work as if to a celebration, very willingly, to a collective where he finds like-minded people, friends, helpmates and generally to a microenvironment which satisfies him psychologically, depends first and foremost on the enterprise. Much also does not depend on the enterprise and this also enters into the idea of the social aspect of management. One of the indicators is whether the microenvironment is good or bad. This cannot be measured in rubles but its gauges are special and these special gauges are no less influential, if not more so than rubles.

When one talks about social effects, one of course should also not forget such overall national and problematic tasks as overcoming the essential difference between the city and the countryside. When this is overcome, then we will indeed install a base under the rural economy whereby people will strive to work there and will receive full satisfaction, that is a much better base than exists today. Incidentally, this follows from the food program that you are aware of, and here also we find the problem of intellectual and physical labor, and so on.

Some sort of subordination, some sort of correlation exists between the social effects we have mentioned previously. What is stronger, what is weaker? What is first, what is second? This is a very difficult problem. I am not convinced that I know how to arrange all these points. [Passage omitted on film clip and interviews on recreational and everyday services provided at the Saratov Cargo Motor Vehicle Transport Production Association.]

[Bunich] I think that a person's feeling that there is order in the world is also a social effect. Without this he cannot have social satisfaction. Here I am not only talking about the psychological atmosphere at the enterprise. I believe we have spoken about it in a sense, about the psychological atmosphere at an enterprise, and a good psychological atmosphere without order is not order, that is order in general.

There are letters that talk in a worker-like way, excellently, graphically, strongly, and powerfully about this. Comrade (Bibikov), from 32 Voroshilov Street, Kletnya Station in Bryansk Oblast, wrote to us: Believe me, this is not just my thought alone. The hearts of many workers grow weary seeing the scandalous mismanagement at many enterprises. The heart grows weary indeed. This also not only enters into the economic aspect, it enters into the social satisfaction with life, that is the social effect of management. [Passage omitted on film report on Saratov Production Association including talk by Belikov on workers appreciating good labor conditions.]

The social effect exerts a reverse influence on economic effects, and in this sense the social effect, being an end, suddenly turns out to be a means, the means of the person himself. Through this means he enlarges himself once again, once again reproduces himself on a broader scale.

Recently our country and all progressive mankind marked the 60th anniversary of the formation of the USSR. The report by Yuriy Vladimirovich Andropov, general secretary of the CPSU Central Committee, at the joint meeting of the CPSU Central Committee, the USSR Supreme Soviet and the RSFSR Supreme Soviet, noted the great achievements our All-Union republics have made. However, it implies and also states directly that these achievements were made possible because of the enormous fraternal assistance of the more developed republics to other republics which were formerly in a state of backwardness, a much less developed state.

This assistance is yet another example, a striking example, of how the social effect and social considerations exerted an active reverse influence on the economy, by creating an accelerated growth of the economy of formerly backward territories and regions of our country's formerly backward republics. [Passage omitted on announcer saying that the next program will deal with problems of the effectiveness of social factor influences on the economy.]

CSO: 1820/76

## INVESTMENT, PRICES, BUDGET AND FINANCE

### REPORT ON INVESTMENT POLICY, BALANCING NATIONAL ECONOMY

Moscow EKONOMIKA I MATEMATICHESKIYE METODY in Russian No 5, Sep-Oct 82  
pp 776-783

[Article by A.F. Andreyev, Moscow]

[Text] In resolving one of the primary tasks of present economic development--boosting of the level of balance of national economic plans--an important place is occupied by improvement of capital construction. In the periodical press attention is chiefly focused on measures for increasing the accountability of construction organizations for the end results of their work. Together with this, it is necessary to analyze the relationship of the most important indicators of investment policy.<sup>1</sup>

In our opinion, the question of planned scale of capital construction at the present time is central to investment policy. Naturally, a more significant volume of capital investment contributes to the solution of a number of additional problems of the country's economic and social development. But the size of funds that can be allotted to the national economy for each period is limited by the size of real accumulation and the present level of use of production resources and the possibilities of changing it. Moreover, under certain conditions, accelerated growth of capital investment can result in negative social and economic consequences. For example, with limited labor resources, expansion of the construction program through a larger number of facilities being simultaneously built with labor-intensive technology would in the near future intensify the pressure on labor balance.

In this article, the question of scale of capital construction and the possibilities of its expansion will be examined in a most general form while utilizing the most elementary means of formal analysis of a number of consolidated indicators.

A characteristic feature of recent development of the national economy is slowing down of growth of capital investment. The rate of its increase during the

---

1. By way of formulation of the question.

5th Five-Year Plan was 89.5 percent, during the 6th--87.0 percent, during the 7th--44.9 percent, during the 8th--42.9 percent, during the 9th--41.7 percent and during the 10th 28.6 percent (1). At the same time, during 1950-1975 it markedly exceeded the growth of other generalizing indicators of public production development (gross product, national income and others). For example, the annual volume of capital investment in the national economy increased 8.8-fold during this period and produced national income--7.1-fold (1).

The accelerated development of capital construction took place at the time

to the 5th, the relation of growth of produced national income to the amount of capital investment for the corresponding years was reduced 2.3-fold (1). To a certain extent, the more rapid growth rate of capital investment could compensate partially its reduced effectiveness and thus stabilize economic growth during a falling return through an increase of its amount. But this did not take place.

As a rule, expansion of capital construction requires additional material and labor resources, the basic source of which in the case of a gradual growth of capital-investment volume is to be found in the results of current functioning of public production. The additional need for manpower in construction and in related sectors can be satisfied through increased labor productivity as well as through natural growth of labor resources.

Accelerated growth of investment programs may be achieved with material resources, principally through planned redistribution of the surplus product in the interest of accumulation. But this possibility is limited. In the 30-year period to 1980, the share of accumulation in the national income in some years was at quite low levels--from 23 to 29.5 percent and in the great majority of cases was concentrated in the range of 25 to 28 percent (1, 2). Availability to public production of additional labor resources may be achieved only with the help of redistribution among sectors as well as through bringing in workers from among those engaged in domestic and subsidiary work. The high level of employment of the able-bodied population limits these sources.

The orientation toward more rapid growth of the volume of capital investment over an extended time under conditions of its reduced yield exerted a certain influence (from the point of view of balance of the public "income" and its "expenditures") on the country's economic and social development.

For evaluation of the "income" let us use annual data on produced national income and amortization deductions going into the renovation of fixed production capital and the figures of "expenditures" for corresponding information on the volume of gross capital investment in the national economy and retail goods turnover of state cooperative and kolkhoz trade. Of course, the data on goods turnover and capital investment reflect only a part of the volume of "expenditures" of society on economic development and consumption. They do not include such elements of the "expenditures" as growth of working capital, stocks, reserves, consumer services, passenger-transport services and the like. But the share of the considered constituents is sufficiently high and shows a tendency for growth: in 1950 it amounted to 68.8 percent of the adopted

estimate of the "income" and in 1980 already 82.3 percent (see Table). Within the framework of the conducted analysis, the use of the said data is perfectly permissible. Their comparison shows, for example, that the present practice of planning and reporting does not exclude the possibility of formation of an "income" with no material backing or obtaining of revenue from production output sold in the end only after its estimation and that the necessary correspondence does not exist between funds for renovation and resources allocated for this and so forth.

The dynamics of "income" and "expenditures" are shown in Figure 1; moreover, if they are equal to each other, the graph line will coincide with the straight line OA emanating from the start of the coordinates at an angle of  $45^\circ$ . In case of an initial noncoincidence of "income" and "expenditures" and retention of this position at the former level, the graph line will be parallel to the line OA. If the actual dynamics deviate to below OA, this means an increase of the "income" without a corresponding growth of "expenditures."

It can be seen from Figure 1 that growth of the discrepancy between "expenditures" and "income" existed for a long time in the country's economy. The individual deviations are to be explained primarily by a fluctuation in the level of production of agricultural products. From 1950 to 1980, the size of this discrepancy grew from 23.5 to 88.6 billion rubles (see Table). A similar tendency was to be found for certain components of the "income" and the "expenditures."

The monetary income of the population corresponds with the volume of goods turnover in "expenditures," the basic part of which forms the wage fund in the national economy. According to data of the USSR Central Statistical Administration, the volume of retail goods turnover of state and cooperative trade, for example, during 1960-1980 increased 2.3-fold and the wage fund in the national economy--2.6-fold (1).<sup>1</sup>

Capital investment under "income" corresponds to funds from which it can be financed. For an analysis of the changes in the relationship between them during 1950-1980, we shall make use of the graph method described above. Let us select two cases. In the first, "income" will express data on the amount of monetary accumulations of the national economy excluding profit, turnover tax and other accumulations (aside from kolkhozes) and in the second case--national economic profit obtained by enterprises and organizations. For an estimate of "expenditures" use was made in both instances of data on the volume of capital investment for the years of the studied period (the first case is shown in Figure 2 by curve 1 and the second by curve 2).

It is natural for the analysis of the said relationships based on such information to be largely conditional inasmuch as the funds allocated for the financing of capital investment are not directly compared with their utilized volume.

1. The problem of advancing growth of the population's monetary income over the growth of its goods availability has an independent significance. It is being widely discussed at the present time in the periodical press (see, for example, (3)). In the given article this question is referred to because of its close connection to other sides of the country's economic development.

Table. Dynamics of Generalizing Indicators of Economic Development and their Correlations During 1950-1980, billions of rubles

Indicators	Years										
	1950	1955	1960	1965	1970	1975	1976	1977	1978	1979	1980
Gross social product, in actual prices	138.0 <sup>1</sup>	195.0 <sup>1</sup>	303.8	420.2	643.5	862.6	903.9	949.6	995.7	1,032.4	1072.3
Derived national income, in actual prices	74.0	98.5	145.0	193.5	289.9	362.8	385.7	405.6	426.3	440.6	458.5
Amortization deductions for renovation of fixed capital (without municipal services)	0.8	1.9	3.6	9.1	14.1	28.1	30.7	33.3	36.0	39.2	41.5
Capital investment, total <sup>2</sup>	10.4	18.6	34.0	48.7	82.0	114.9	118.0	122.3	129.7	130.6	133.5
Total volume of goods turnover of state, cooperative and kolkhoz trade	40.9	55.8 <sup>1</sup>	82.3	108.5	159.4	215.6	225.9	236.4	247.8	260.7	277.9
Total amount of capital investment and goods turnover	51.3	74.4	116.3	157.2	241.4	330.5	343.9	358.7	377.5	391.3	411.4
Relation of capital investment to gross social product, %	7.5	9.5	11.2	11.6	12.7	13.3	13.1	12.9	13.1	12.7	12.5
Monetary accumulations of national economy (except kolkhozes)	27.1	41.8 <sup>1</sup>	65.2	83.3	139.7	176.2	189.3	196.0	208.5	213.1	234.1
Profit of enterprises and economic organizations	5.2	12.6	25.2	37.0	87.0	104.5	106.4	110.3	114.3	114.1	116.0

1. The data presented here and in the text are taken from (1); the figures marked <sup>1</sup> were computed through the use of share and other correlations.

2. Information on volume of capital investment is shown either as an estimate of pertinent years or as an estimate based on reference books closest to them.

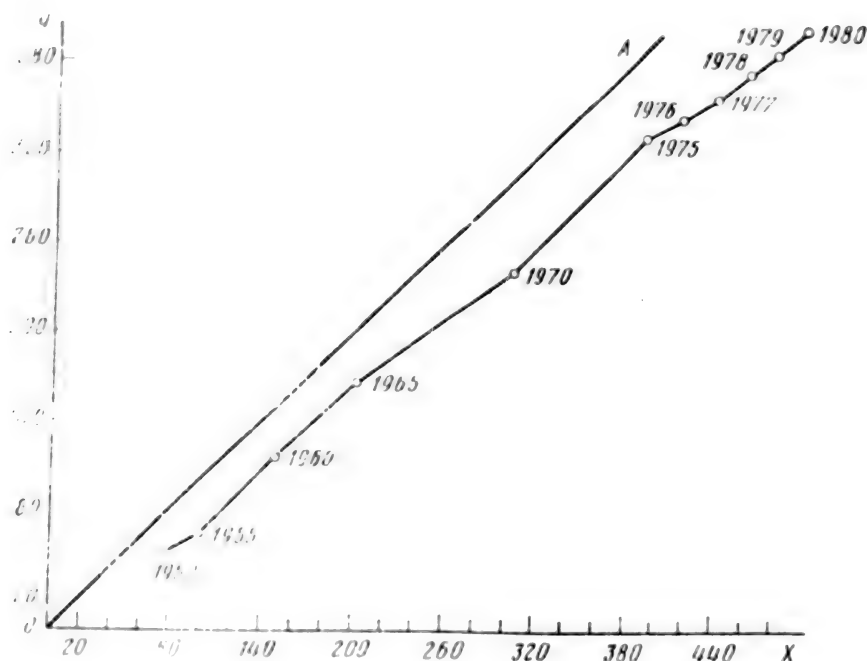


Figure 1. X--"Income," billions of rubles, Y-- "Expenditures," billions of rubles.

But for the national economy as a whole, monetary accumulations, particularly profit, are most important elements of the state's financial resources, providing among other things for the financing of centralized and noncentralized capital investment. For example, the total amount of deductions from profit and the turnover tax in 1950 was 65.3 percent, in 1960--64.9 percent, in 1970--66.1 percent and in 1980--60.8 percent of the revenue portion of the state budget (1).

In Figure 2, curve 3 also shows the interrelation between capital investment and the sum of monetary accumulations of the national economy and amortization for the renovation of fixed production capital. The dynamics of amortization deductions is stable and does not change the character of the interrelations registered by curves 1 and 2, for which reason we shall subsequently restrict ourselves solely to the examination of these two cases.

Curve 1 in Figure 2 shows that during 1950-1980 a steady increase took place in the difference between the size of monetary accumulations of the national economy and capital-investment volume. Monetary accumulations are a basic part of society's net income, but their growth for a number of reasons may not correspond to the process of expanded reproduction in the physical aspect. For example, an excessive deduction of funds (of profit, amortization deductions and others) from sectors of the national economy going into the state budget upsets the normal operation of economic units; revenue receipts from



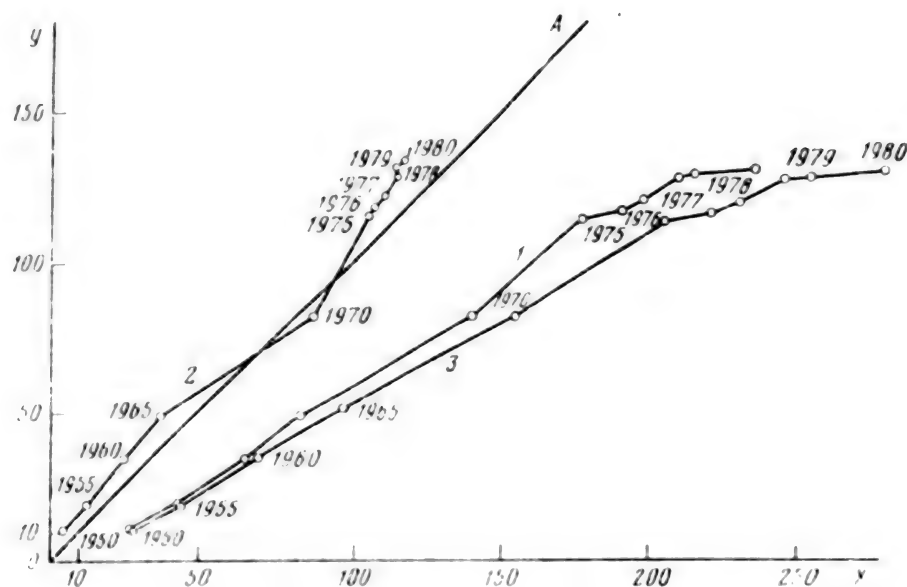


Figure 2. X--"Income" (monetary accumulations of national economy, billions of rubles--curve 1, profit--curve 2, monetary accumulations and amortization, billions of rubles--curve 3). Y--"Expenditures" (capital investment), billions of rubles.

the turnover tax take place "automatically" in the transfer of taxed goods wholesale to retail regardless of the fact and time of their sale. The practice has developed of adding bonuses for the fulfillment of corrected plans for production output and so on (4). Moreover, the actual fact of obtaining a profit still does not guarantee success in physical turnover. In particular, profit, there may be profit from the manufacture of products that do not fully meet the requirements of the consumer thanks to prices which do not correspond to consumer quality, because of credit for shipped products, without any relation to the quality of their manufacture and so forth (4). Such profit in turn may give rise to additional solvent demand both for consumer goods and for investment resources.

It should also be pointed out that during 1950-1975 there took place as it were mobilization of the national economy's monetary accumulations in the interest of capital construction. In 1950, the volume of capital investment amounted to only 38.4 percent of the size of monetary accumulations, in 1955--44.5 percent, in 1960--52.1 percent, in 1965--58.5 percent, in 1970--58.7 percent and in 1975--65.2 percent. During 1976-1978, it was stabilized at the 62.0-percent level and by 1980 it had dropped to 57.0 percent.

The presented data are of special interest in connection with the behavior of curve 2 in Figure 2. During 1950-1965, the size of profit obtained by enterprises and organizations in the national economy significantly increased (by



more than sevenfold with a growth of gross social product of approximately three fold). The role of profit as a source of monetary accumulations increased correspondingly. In 1950, its share in them amounted to 19.2 percent, in 1965 to 44.4 percent (see Table). But as shown by curve 2 in Figure 2, during 1950-1965 growth of the need for funds required for financing of capital investment did not correspond to growth of profit. This disparity increased and was compensated by capital construction through other sources of state revenue.

After 1965, the situation changed. By 1970, the size of profit even exceeded the amount of fund needed for the financing of capital investment. As we know during this period the role of noncentralized financing of capital construction significantly increased. Funds allocated for specific installations are not being fully utilized. The dynamics of unfinished construction and startup of fixed capital . . . deteriorating. Thus, while in the 6th Five-Year Plan compared to the 5th the volume of unfinished construction practically did not change (for the last years--without kolkhozes), in the 7th compared to the 6th, it increased 1.3-fold and in the 8th compared to the 7th--2.9-fold. During the same periods, startup of fixed capital in the country grew correspondingly--1.9-fold, 1.5-fold and 1.4-fold (1).

After 1970, again as during 1950-1965, there was noted an advance in the volume of capital investment in the national economy over the size of profit, but this time for other reasons. Whereas during 1950-1965, the gap between them increased together with the accelerated growth of profit, after 1970, profit growth slowed down significantly. The gross social product during 1970-1980 increased even faster than profit: the share of profit in monetary accumulations of the national economy dropped from 62.3 percent in 1970 to 49.6 percent in 1980.

Thus, together with greater mobilization of monetary accumulations of the national economy in capital construction during 1950-1980 the respective relation of the ways of their formation changed. Prior to 1965, despite growth of the share of profit, the basic source was the turnover tax; during 1965-1970 it was profit; after 1970, the significance of profit again decreased.

On the whole, as shown by the cited correlations of capital investment and size of monetary accumulations and profit during 1950-1980, disparity increased between the amount of funds allocated for financing of capital construction and the size of utilized capital investment. During 1950-1975, an accelerated growth took place of demand for construction work in regard to the possibilities of construction organizations and its provision of material-technical resources. Capital-construction plans became more taxing and an increasingly greater part of the resources of the gross social product were diverted for their realization. This is shown by the dynamics of the relation of the volume of capital investment to the size of the gross product of the national economy. During 1950-1975, it showed a stable tendency for growth and increased from 7.5 to 13.3 percent (see Table). Calculations on the data of reporting intersectorial balances of production and distribution of the social product also confirm this. For example, such calculations for 1966 and 1972 showed that the size of full material outlays required for the production of annual capital investment in the country (as a part of the end product) exceeded the growth

of the aggregate product in these years respectively 4.4- and 5.9-fold, and taking into consideration annual lag (while taking into account production growth for 1967 and 1973)--2.6- and 3.5-fold (5). Such a situation to a large extent contributed to the dissipation of allocated resources, the creation of a situation where realization of plans of capital construction in terms of cost proceeded in parallel with the nonfulfillment of plans for turnover of specific facilities, the startup of production capacities and the like. The existing defects in capital construction itself only intensified these processes.

During 1976-1980, growth of the scale of capital construction slowed down both the correlation between the volume of capital investment and the gross social product by 1980 dropped to 12.5 percent (see Table). During these years, the rate of growth of the derived national income was higher than the growth of capital investment in the national economy (except for 1978). But some of the tendencies in the economy examined above essentially remained (see curves 1 and 2 in Figure 2), including an inadequate balance between "income" and "expenditures."

In particular, the expansion of the scale of capital construction produced a growth of additional need in the number of employed in construction itself, in sectors providing construction with material-technical resources and also in the results of creation of new workplaces in the production and nonproduction spheres of the economy. But this was not in accord with the natural growth of labor resources in the country (see, for example, (6)) and to a certain extent the need for them was covered through an influx of workers from rural localities, which at the same time increased demand for consumer goods and services. Moreover, shortage of manpower for a number of reasons raises the level of wages and monetary revenues without a corresponding increase in production output and improvement of its quality. A return to extensive growth of capital investment in the national economy with consideration of the existing inability to satisfy demand for consumer goods and the existing demographic situation would intensify these processes.

As has already been said, during the 10th Five-Year Plan, growth of capital investment was slowed down somewhat and a policy was adopted of intensification of the process of expanded reproduction, which provided certain results, but the situation in regard to capital construction still remains unfavorable. In particular growth of unfinished construction continues. One of the chief reasons for such a negative happening is lack of provision of the construction program with material and labor resources. There is also taking place a rise in lack of availability of labor resources for fixed capital that has become operational (see, for example, (7, 8))

It is evidently necessary to examine the question of further reduction in the immediate future of the growth rate of capital-investment volume. It is necessary to restrict its growth by the size of real accumulation while keeping in mind the attainment of a strict correspondence between the designated front of work and all types of resources and capacities of construction-installation and planning organizations. Much long-term work is required for creation of conditions for intensification of the process of expanded reproduction. Only

on this basis would it be possible to count on getting additional resources for the solution of pressing problems relating to the development of the economy and its branches. The basic direction in current investment policy should be improvement in the use of allocated resources, more valid apportionment of them along directions and for sectors, reduction of the number of newly started construction projects and preservation of a number of already started ones. A most immediate task on this plane is bringing the construction program into conformity with the possibilities of construction organizations operating in specific economic regions of our country.

In the final analysis, the consequence of such an approach to the development of the national economy will be a change in the correlation between accumulation and use in the national income in favor of the latter. An analysis conducted, for example, in (2) shows that such an orientation in the development of the Soviet economy has had a favorable effect on the growth of public labor productivity.

At the same time, it is necessary to provide consumer benefits for the population's income through the use of additional capital investment from other sectors of industry and the national economy. Thus the highest relative share of capital investment going into group B in its volume as a whole for the national economy occurred in the 2nd Five-Year Plan (6.8 percent). In the years of the Great Patriotic War, it dropped to 3.4 percent. In the 4th, 5th, 6th, 7th, 8th and 9th Five-Year Plans, it was, respectively: 5.2, 4.5, 5.3, 4.8, 5.3 and 4.8 percent and in the 10th only 4.3 percent (1).

The rise in the level of the material covering of the population's income will exert a direct influence on boosting the effectiveness of economic levers of management of production at all levels of economic construction. For this reason the allocation of capital investment to pertinent sectors of the production and nonproduction spheres should be considered as a mediated investment group A. The urgency of an all-out rise in the level of production of consumer goods and services in the immediate future was emphasized in a decree of the CPSU Central Committee and the USSR Council of Ministers (9).

It goes without saying that we have not exhausted the complex of measures relating to the solution of the problem of material and financial balancing of the national economy while examining its investment aspect in general form. Its further concretization will require conducting a detailed quantitative analysis.

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## INVESTMENT, PRICES, BUDGET AND FINANCE

### METHODOLOGY, DISCUSSION OF WHOLESALE PRICE FORMATION FOR EQUIPMENT

#### Methodology Detailed

Moscow EKONOMICHESKAYA GAZETA in Russian No 6, Feb 83 pp 11-14

[Unattributed article: "Prices for New Products: Procedure for Determining Wholesale Prices and Net Product Rates for New Machinery, Equipment and Production and Technical-End Instruments" As Approved by the Decree of the USSR State Committee for Prices on 7 December 1982, No 920]

#### [Text] 1. General Provisions

1.1. The present procedure which has been worked out with the participation of the USSR Gosplan, the USSR Ministry of Finances, the USSR State Committee for Science and Technology [GKNT] and the USSR State Committee for Inventions and Discoveries is aimed at ensuring the fullest reflection of the socially necessary labor expenditures in prices, taking into account the technical and economic indicators and consumer properties of the products, increasing the incentive role of prices in accelerating scientific and technical progress, renewing and improving product quality, reducing prices per unit of end useful effect and thereby contributing to a further improvement in price formation as a major tool in carrying out the economic policy of the CPSU.

The main direction for improving price formation is to encourage the output of highly efficient new technology which provides a reduction in product costs by saving the material and labor resources and thereby increasing production profitability.

1.2. The procedure is to be employed for new and modernized production- and technical-end serially produced machine building products\* manufactured under new normative and technical documents as well as for large and special-order machines, special production equipment and elements for enterprises under construction and reconstruction which are produced according to individual orders.

1.3. Price formation for the new machine building products should ensure:

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\*Hereafter--new products.

1.3.1. A stronger economic interest on the part of the design and engineering organizations and manufacturing enterprises as well as the clients for creating and rapidly introducing into the national economy highly efficient new products which, in terms of their parameters, meet the best domestic and foreign models.

1.3.2. A relative reduction in the cost of new products for the consumer calculated per unit of end useful effect in comparison with the previously developed. By end useful effect of a new product one understands an improvement in its basic consumer qualities (productivity, power, durability, reliability and so forth) which as an aggregate are manifested in cost terms in the economic effect.

1.3.3. A reduction in material and labor intensiveness and hence the costs of machine building products with the maintaining or improving of their technical and economic parameters.

1.3.4. The establishing of economically sound price ratios for new and previously developed analogous or functionally similar products.

1.3.5. An improvement in the indicators for the cost accounting operations of the enterprises (associations) in fulfilling the plan quotas for the output of new products and economic contracts for their deliveries in the set product range. An increased incentive role for the incentive additions to the wholesale prices for new highly efficient products.

1.3.6. Strengthening the relationship with standardization based upon the simultaneous elaboration and introduction of the normative and technical documents and the prices and the fuller consideration in the standards and technical conditions of the consumer (operating) indicators of the new products (including the indicators of material and energy intensiveness and so forth) needed for assessing the product's technical level, economic efficiency as well as for working out the prices.

1.4. Determining the wholesale prices and the amount of the economic effect for the new machine building products is carried out in all stages of designing the products from working out the technical and economic feasibility studies and technical specifications for designing up to the point of commencing series production.

1.4.1. In the stages of working out the technical and economic feasibility study, the technical specifications and the technical plans, calculations should be provided for the following:

- a) A limit price which ensures a relative reduction in the cost of the new product per unit of end useful effect;
- b) The economic effect from the production and use of the new product (calculated considering the limit price).

1.4.2. In the stage of working out the working documents from the results of carrying out the acceptance testing and the accepting of the prototype (prototype batch) the following are to be determined:



- a) The draft wholesale price (temporary or permanent);
- b) The economic effect from the production and use of the new product (calculated considering the draft wholesale price);
- c) The incentive addition to the wholesale price.

1.5. Wholesale prices for new products are set proceeding from the economically sound (normed) expenditures considering the technical level, quality and economic effectiveness. The methodological particular features of forming the prices depend upon the nature of interchangeability and the degree of newness for the articles to be put into production and in accord with which the new product is divided into the following basic groups:

1.5.1. Articles having an analog and designed to replace previously developed products. New and previously developed articles are considered interchangeable if the same demands are satisfied in employing them in the basic spheres of use.

1.5.2. Articles which in terms of their design are a development of a certain parametric series and differ from these in individual technical and economic parameters.

1.5.3. Fundamentally new articles which are being developed for the first time in the USSR and do not have analogs among the produced products.

1.6. For the economic encouragement of the development and output of highly efficient new articles which in their parameters meet the finest domestic and foreign models, incentive additions are set for the wholesale prices and these are differentiated depending upon the economic effectiveness and the national economic importance of the individual types of machine building products. Discounts on the wholesale prices are employed for obsolete machine building products the technical and economic indicators of which do not meet modern needs.

1.7. For new machine building products the costs of which are lowered as a result of a savings of all types of productive resources and which in terms of their technical and economic parameters and quality meet or surpass the previously produced products, additional incentive measures may be employed.

1.8. The consumer (operational) and social indicators of the new products accounted for in price formation should be stipulated in the normative and technical documents.

If individual improved consumer (operational) and social indicators for the new products are lacking in the normative and technical documents for previously developed products, then in setting the prices a comparison is made for such indicators using the results of the testing carried out in the established procedure or following the data of operating the previously developed equipment as confirmed by document by the client.

1.9. Simultaneously with the setting of wholesale prices for new products, the net product rates are calculated according to the unified costing materials.

1.10. The leaders of the enterprises (associations) bear responsibility for the economic soundness of the draft prices being worked out and for the reliability of the calculations of the economic effect, the costing and other materials submitted for setting the prices.

1.11. With the approval of the current procedure, on the basis of the unified methodological principles and considering the specific features of price formation for the sectors (subsectors), the ministries (departments) are to work out and, with the approval of the appropriate price formation bodies, put into effect sectorial supplements to the procedure for product groups when these organizations are the head ones in production.

The standard demands for the sectorial supplements are given in Appendix 2.

1.12. The wholesale prices for new types of materials are set considering the principles and methods provided in the current procedure.

## 2. Calculating the Limit Prices and Economic Effect in Developing New Products

2.1. Limit prices are set for the stages of designing new equipment in the aim of assessing the economic and social advisability of developing a new product with the set technical and economic parameters, for limiting an increase in expenditures on producing the product and for ensuring a relative reduction per unit of end useful effect.

2.1.1. In developing a product, the client submits an order with the initial demands and the technical and economic feasibility study on the basis of which the developer of the technical specifications together with the proposed manufacturer determine the level of the limit price and the amount of the economic effect.

2.1.2. The soundness of the calculations for the limit price and the economic effect is tested by the developer together with the client and according to these results a decision is made on the level of the limit price and the amount of the economic effect to be incorporated in the technical specifications.

2.1.3. In the event of the absence of the new product's client in the stage of the technical specifications, the limit price and the amount of the economic effect determined by the organization which is the developer of the technical specifications together with the proposed manufacturer are approved by the basic consumer of this product in the stage of the technical plans.

2.2. The limit price for the new product is calculated from the formula:

$$P_1 = C + R_n, \quad (1)$$

where  $C$ --the costs by the stages of designing;  
 $R_n$ --the normed profit.

2.2.1. The amount of expenditures on production (costs) for the product are clarified in moving from the initial to the subsequent development stages.



Considering the increased volume and greater reliability of the initial information, the following are determined:

- a) The preliminary level of expenditures in the stages of the technical specifications, technical proposal and conceptual design;
- b) The normed cost on the basis of the production standards being worked out for the material and labor expenditures in the stages of the technical design and the elaboration of the working documents.

2.2.2. For assessing the preliminary level of costs it is possible to employ the following:

- a) The proportional indicators for material and labor expenditures, consolidated standards and norms for expenditures by product groups (types);
- b) The established formulas for the dependence of costs on a change in parameters for analogous articles;
- c) An aggregate method with a high level of standardization for the new product.

2.2.3. Normed profit is determined on the basis of the profitability rates approved for the corresponding product groups in relation to costs minus the cost of the utilized raw products, fuel, energy, materials, semifinished products and preassembled articles.

2.2.4. With the impossibility of isolating material expenditures in costs in the initial stages of working out a new product, the profit calculations are made proceeding from the structure of expenditures on analogous products for utilizing the set profitability norm for full costs. In the subsequent designing stages, the amount of profit is recalculated on the basis of the adjusted level and structure of the new product's costs and the approved profitability rate in relation to the costs minus the material expenditures.

2.3. The calculation of the economic effect for the new product is made in accord with the Procedure (Basic Provisions) for Determining the Economic Effectiveness of Utilizing New Equipment, Inventions and Rationalization Proposals in the National Economy as approved by the Decree of the USSR GKNT, the USSR Gosplan, the USSR Academy of Sciences and the USSR State Committee for Inventions and Discoveries of 17 February 1977, No 48/16/13/3 and by the sectorial procedures worked out for its development.

2.3.1. In calculating the economic effect of a unit of new product using formulas 4 and 5 of the designated Procedure, in the place of the calculated expenditures for the base article ( $Z_1$ ), one utilizes the current wholesale price ( $P_b$ ), and for the new article ( $Z_2$ ) the limit price ( $P_1$ ).

2.3.2. In adjusting the limit prices for the individual stages of designing the new equipment, correspondingly the calculations for the economic effect from producing and utilizing the new product are adjusted.

2.4. The economic soundness of the level of the limit prices which ensure a reduction in the consumer's expenditures per unit of end useful effect is verified by comparing these with the current prices for the base articles considering the changes in the technical, economic and social parameters.

2.4.1. For the end extended-use machine building product which has independent purpose and replaces a previously developed product, the following formulas are employed:

a) For products with improved indicators for productivity (power, capacity) and durability,

$$\frac{P_1}{P_b \cdot \frac{B_2}{B_1} \cdot \frac{\frac{1}{T_1} + E_n}{\frac{1}{T_2} + E_n}} \leq 0.85 \quad (2)$$

b) For products with improved basic technical and economic parameters providing a savings in the operating outlays by the consumer,

$$\frac{P_1}{P_b \cdot \frac{B_2}{B_1} \cdot \frac{\frac{1}{T_1} + E_n}{\frac{1}{T_2} + E_n} + \frac{W_1 - W_2}{\frac{1}{T_2} + E_n}} \leq 0.85 \quad (3)$$

c) For articles where a change in their aggregate of parameters is expressed by a compound quality indicator,

$$\frac{P_1}{P_b \cdot I_q} \leq 0.85 \quad (4)$$

where  $\frac{B_2}{B_1}$  --coefficient considering increase in productivity of a unit of the new article in comparison with the base;

$B_1$  and  $B_2$ --Annual volumes of product (work) produced in utilizing a unit, respectively, of the base and new articles in physical units (determined in accord with point 2.5.3.);

$\frac{\frac{1}{T_1} + E_n}{\frac{1}{T_2} + E_n}$  --coefficient considering change in the service life of the new article in comparison with the base;

$T_1$  and  $T_2$ --service lives, respectively, of base and new articles considering obsolescence (determined in accord with point 2.5.4.);

$W_1$  and  $W_2$ --annual operating outlays of consumer in using the base and new articles calculated for the annual volume of product (work) produced using the new product (determined in accord with point 2.5.5.);

$E_n$ --normed efficiency factor (0.15);

$I_q$ --compound quality indicator;

0.9, 0.85--coefficients for the relative reduction in the cost of the new product guaranteeing a reduction in the limit prices per unit of end useful effect (when necessary these can be adjusted in the sectorial supplements).

2.4.2. For new products which are assembled from component units and where the economic effect from their use is realized only in the end product, the test calculation for the soundness of the limit price ( $P_{lc}$ ) is made considering the change in the technical and economic parameters of the end product using the formula:

$$\frac{P_{lc}}{P_{bc} + \left( \frac{W_1 - W_2}{\frac{1}{T_2} + E_n} \right) \cdot Y_d} > 1.0 \quad (5)$$

where  $P_{bc}$ --the price of the base preassembled article;

$W_1$  and  $W_2$ --annual operating outlays calculated for the end product in utilizing in it, respectively, the base and new preassembled articles;

$Y_d$ --coefficient reflecting the effect of the change in the parameters of the reassembled articles on the annual operating outlays of the end product.

In the sectorial supplements, considering the specific features of the pre-assembled articles, other formulas can also be given.

2.4.3. The exceeding of the coefficients for the relative reduction in costs, when disclosed in verifying the soundness of the limit price level for the new product using formulas 2, 3, 4 and 5 of the current Procedure, shows an insufficient reduction in expenditures per unit of end useful effect and a product with such expenditures should not be designed. In instances when it is essential to put such equipment into production, an additional economic feasibility study should be submitted for the expenditure level and a required registration made for the limit price of the new equipment with the bodies approving the prices.

2.4.4. If for a new product with improved technical and economic parameters, the limit price is below or equal to the price of the base product, then a verification of the soundness of its level in accord with points 2.4.1. and 2.4.2. is not carried out.

2.5. In verifying the economic soundness of a limit price for new products:

2.5.1. As the base product one uses a progressive one which is the best of the products developed by domestic industry and having, as a rule, a fixed wholesale price.

If the new domestic product is designed to replace an imported one, then as the price for the base product ( $P_b$ ) one uses the billed cost shown on the bill of the foreign supplier.

In instances when there are different prices for the manufacturer and consumer, the price for the manufacturer is considered as the price of the base product.

2.5.2. With extended periods for developing a new product, the wholesale price for the base product should correspond to the conditions of the calculated year for beginning production of the new product. For this the cost of the base item is adjusted using formula 6 and the normed profit is added to the adjusted cost ( $C^1_b$ ).

$$C^1_b = C_b \frac{100}{100 + D \cdot T}, \quad (6)$$

where  $C_b$ --the cost of the base item according to the plan of the year in which the limit price is calculated;

$C^1_b$ --the expected cost of the base item in the first year of series production of the new item;

$D$ --the average annual rate of decline in the cost of the base item depending upon the duration and series run in producing the product as set in the sectorial supplements. In the instance of the lack of the given indicators, in the calculations they employ the average annual decrease rates for the cost of analogous groups of product;

$T$ --the period of time (in years) from the start of designing the new product to the first year of series output.

2.5.3. The annual volumes of work to be performed ( $B_2, B_1$ ) should be calculated considering the possible use of the guaranteed productivity, the available working time, and the indicators for the reliability of the new and base products.

2.5.4. The service lives ( $T_2, T_1$ ) of the new and base articles are set in accord with the service lives approved in the sectorial supplements until obsolescence.

2.5.5. The annual operating expenditures of the consumer ( $W_2, W_1$ ) are determined proceeding from the direct expenditures and the outlays on the maintenance and operation of the equipment, that is, with the exception of the shop, general plant and extraproduction expenditures.

The amount of the annual savings for the consumer from the use of the new product is calculated for each variable expenditure item on the basis of the established standards for the consumption of material and labor resources:

- a) The savings from the reduction in the expenditure of raw products, materials, fuel and energy resources is determined on the basis of the indicators provided in the normative and technical documents;
- b) In determining the savings for wages related to the use of automatic manipulators with programmed control (industrial robots), the use of equipment for regions of the Far North and also in all instances of providing a real savings with an absolute release of workers, payments from the material incentive funds are additionally considered amounting to 40 percent of the wage fund;
- c) The change in the total amortization is partially reflected only in the expenditures on major overhauls. Amortization deductions for renovation are not included in the calculating of the annual savings.

2.5.6. The savings in operating expenditures for the consumer are calculated for the service life of the new product considering obsolescence and in the absence of this over a service life until the first major overhaul.

2.5.7. The methods for calculating the social factor (safety factor, reduction in vibration, noise level, the easing of working conditions and the impact on the environment) are given in the sectorial supplements, proceeding from the specific features of the concrete product groups.

In instances when they are only improving the social parameters of a new product as stipulated in the normative and technical documents (with an affirmative ruling by the AUCCTU, the central sectorial trade union organizations and Gosgortekhnadzor [State Mine Safety Inspectorate]), but the results of the improvements made are not reflected in the amount of the economic effect, the formula is employed as follows:

$$P_1 \leq P_b + P_s, \quad (7)$$

where  $P_s$  -- the economically justified expenditures on improving the social parameters of the new article with the addition of normed profitability for the given product group.

2.5.8. If the new product is supplied with an additional set of devices and this expands the production possibilities for its use as well as an additional set of spare parts, the expenditures on these supplies should be added to the wholesale prices for the base machines, equipment and instruments.

The cost of an additional set of spare parts and attachments is determined as the total of the prices and in the event of an absence of prices, as the total expenditures on producing these spare parts and attachments with the addition of a normed profitability.

2.6. In verifying the economic soundness of the limit price of the set (system) of machines:

- a) As the price of the base article ( $P_b$ ) one employs the total cost of the machines and equipment being replaced by the new set (system) of machines;
- b) The technical and economic parameters of the basic equipment are taken into account when these determine the indicators for the operation of the complex (system) as a whole.

In the event of calculating the limit prices for the individual machines and equipment comprising the complex (system), the changes in the technical and economic indicators are determined only within the limits of the indicators for the operation of the entire complex (system) as a whole.

2.7. The setting of the limit prices for new products of a parametric series is carried out as follows:

2.7.1. For new models (makes, types or sizes) of articles in a parametric series differing from the previously developed products in individual technical and economic parameters (capacity, productivity, power and so forth), the limit prices are set considering the dependence existing within the limits of the given parametric series for costs (prices) upon the change in the parameters in using the methods given in Appendix 1.

2.7.2. For a product of a new parametric series, the calculating of the level and soundness of the limit prices is carried out for the first representatives using formulas 1-7. For the remaining articles of the new parametric series the limit prices are calculated in accord with point 2.7.1.

2.7.3. If the new products are to be used to replace previously developed products and at the same time are part of a parametric series, the limit prices are set in accord with point 2.7.1. and in addition are varified using formulas 2-7.

2.8. For fundamentally new products which are being developed in the USSR for the first time, the varification of the soundness of the limit prices using formulas 2-5 is made by employing a product of the same functional purpose or an analogous imported product employed as the base. Here the price for the base product is determined in accord with points 2.5.1. and 2.5.2.

2.9. The limit price and the amount of the economic effect in the stage of technical designing are fixed on the Informational Chart for Calculating the Economic Effectiveness and Prices for New Products and this is an appendix to the normative and technical documents.

### 3. Wholesale Prices for New Products

3.1. Wholesale prices for new products are approved for a standard optimum period for the replacement of a product as set by the USSR Gosplan and the USSR GKNT after making the decision to put the product into production and register the normative and technical documents. The putting of the wholesale prices, standards and technical conditions into effect is carried out simultaneously.

3.1.1. In approving wholesale prices for new products, the following are varied:

- a) The soundness of the level of planned costs;
- b) The corresponding of the wholesale price level to the limit price;
- c) The economic effectiveness of the new product proceeding from the draft wholesale price and the correct selection of the base product on the basis of the technical specifications, the technical level and quality chart and the codes of the National Product Classifier;
- d) The corresponding of the level of the planned price for the new product to the overall price system for the group of analogous articles. Also made are a calculation and additional comparison of the proportional values of the prices per unit of the basic technical and economic parameters for the new and previously developed products.

3.1.2. The wholesale price for the new product should be set, as a rule, not higher than the limit price level as given in the Information Chart for Calculating Economic Effectiveness and Prices.

In instances where it is advisable to encourage the predominant output of a new high-quality product, it is possible for the wholesale price to exceed the limit price by the amount of additional profit in comparison with the normed under the condition of ensuring the economic effectiveness of the new product.

3.1.3. In calculating the economic effect per unit of a new product, in accord with the "Procedure (Basic Provisions) for Determining the Economic Effectiveness of Utilizing New Equipment, Inventions and Rationalization Proposals in the National Economy," according to formulas 4 and 5, in the stage of approving the wholesale price, instead of the calculated expenditures for the base item ( $Z_1$ ), one uses the current wholesale price or the wholesale price adjusted in accord with point 2.5.2. ( $P_b$ ) and for a new product, the draft wholesale price ( $P_n$ ).

3.1.4. In the aim of ensuring promptness in approving wholesale prices for spare parts, replaceable assemblies and pieces used in operating new machine building products, simultaneously with working out wholesale prices for the machinery and equipment, wholesale prices are to be set for the spare parts.

3.2. Wholesale prices for a new product are formed on the basis of the socially necessary expenditures for its production and should provide for the ensuring of non-loss conditions for normally operating manufacturing associations (enterprises). The initial base for the wholesale price ( $P_n$ ) is the sectorial cost reflecting the socially necessary conditions for the production of the new product and the normed profit:

$$P_n = C + R_n, \quad (8)$$

where  $C$ --costs of new article;

$R_n$ --normed profit.



3.3. The costs used as the base of the wholesale price reflect the planned expenditures for the first year of series product output. Here the expenditures for preparing and starting up production of the new product should be recovered within the established procedure from the funds of the Unified Scientific and Technical Development Fund. For the major types of new products, the amounts of increased expenditures which go to prepare for and start production and can be recovered from the Unified Scientific and Technical Development Fund can be stated in the price lists.

3.3.1. In determining the planned cost of a new product, the following quotas set for the enterprises (production associations) are considered:

- a) For the saving of metal and other materials, for increasing their use factors and reducing the consumption rates, for using rolled metals differentiated for the basic strength characteristics and cheaper substitutes;
- b) For reducing product labor intensiveness and for improving the production methods, the organization of production and management;
- c) For improving the use of fixed and working capital.

3.3.2. The material and labor expenditures for a new product are calculated proceeding from technically sound standards.

For assessing the material expenditures, indicators are employed for the proportional material intensiveness (metal intensiveness) provided in the standards, technical conditions and technical level and quality charts. Here the new weight (mass) of a new product in breaking down the material expenditures should not exceed the indicator given in the normative and technical documents.

3.3.3. In instances when the new product is manufactured simultaneously by several enterprises, the sectorial cost used as the base for the wholesale price is calculated without considering the expenditures at the technically backward enterprises which are to be reconstructed. The cost of the product produced at new enterprises (shops) is determined proceeding from their reached designed capacity.

3.4. For machines and equipment with an extended production cycle, the cost is calculated for units (assemblies) which are complete independent structures, if these are delivered separately in accord with the normative and technical documents. Here the cost of the units (assemblies) should not exceed the cost of the product as a whole.

3.5. The procedure for determining and the composition of the expenditure items, as well as the methods for calculating them should correspond to the current procedural documents on the planning, calculating and costing of product costs for machine building enterprises.

3.6. The costs used as the basis for the wholesale price should not include increased expenditures which are caused by the following:



- a) By a disruption of the planned (normed) dates for developing the new product;
- b) By deviations in the actually employed technology from the designed;
- c) By above-norm expenditures of raw products, materials, fuel, electric and thermal energy;
- d) By irrational economic contracts for the deliveries of raw products, materials, preassembled articles and so forth;
- e) By deviations from the normal conditions for organizing the production process;
- f) By discrepancies from the requirements stipulated in the normative and technical documents;
- g) By the exceeding of prices for preassembled articles and purchased semi-finished products.

Note. Wholesale prices for new materials and preassembled articles used in producing the new product should be approved prior to setting the wholesale prices for this product or simultaneously with this.

3.7. In the aim of seeking out additional reserves for saving material and labor resources, for eliminating unproductive expenditures and losses and for increasing the soundness of the planned cost level for the new product, it is essential to use the methods of functional cost analysis (FCA) making it possible to select the most economic technical and organizational decisions.

3.8. The normed profit included in the wholesale prices is determined proceeding from the profitability rate in relation to costs minus material expenditures. This rate is set for the appropriate product groups and is calculated as the ratio of total profit (obtained on the basis of the sectorial profitability rate to the value of the productive capital) to product costs minus the value of the utilized raw products, materials, fuel, energy, semifinished and preassembled articles.

Deviations from the amount of normed profit in setting wholesale prices for new products are permitted in the following instances:

- a) A specific encouragement for the preferential output of individual product types;
- b) The output of new machinery and equipment ensuring a savings in material and labor expenditures for their production;
- c) Ensuring correct value relationships between the new and previously developed products as well as various types of new products having the same functional purpose.

3.9. In the aim of encouraging new, highly efficient products which in terms of their parameters meet the best domestic and foreign models (recommended or certified for the higher quality category), the profit set in accord with point 3.8. should not be lower than what has been achieved in producing the product to be replaced at the enterprise which developed the new equipment. If a new, highly efficient product is not designed to replace a previously developed one, the profitability set in approving the wholesale price should be not lower than the planned profitability set for the manufacturer enterprise for the year of developing the product.

3.10. For new products which are part of a parametric series, the wholesale prices are set in terms of the level of the current prices for previously developed products considering the established dependence of costs (prices) upon the change in the technical and economic parameters. The parametric methods for setting prices for products of a parametric series are given in Appendix 1.

3.11. For fundamentally new products of the appropriate range which is being developed for the first time in the USSR, without analogs and is to be put into series (mass) production, temporary wholesale prices are set proceeding from the planned cost of the first production year (minus expenditures on preparations and development which are to be covered from the Unified Scientific and Technical Development Fund) and the planned profitability set for the manufacturing enterprise for the first year of producing the new product, but not lower than the norm for the given product group.

The period for the temporary wholesale prices is set from 1 to 2 years depending upon the length of the period for reaching series output for the product.

The temporary wholesale prices are to be registered with the USSR Goskomsen [State Committee for Prices].

3.12. With the maintaining of quality and the constancy of the technical and economic parameters of the product (in comparison with the previously produced), with a reduction in its labor and material intensiveness in replacing regular raw products and materials with secondary raw products and production wastes and in utilizing cheap types of materials, the wholesale prices for the new product are determined on the level of the current prices for the products to be replaced.

3.13. In the event of increased durability for major assemblies (parts) of the produced machines and equipment (without a change in the normative and technical documents) and which provides a reduced need in the national economy for spare parts, replaceable sets of employed assemblies (parts) and attachments, the current wholesale prices for machinery and equipment can be revised considering the additional expenditures and the economic effectiveness of the measures carried out.

#### 4. Incentive Additions to Wholesale Prices and Reductions in Them Set Considering the Technical Level, Quality and Economic Effectiveness of Products

4.1. The decision to set an incentive addition to the wholesale price is taken on the basis of the ruling of the acceptance commission which affirms the

conformity of the product in terms of technical level, quality and economic effectiveness to the best domestic and foreign models. In the necessary instances an additional expert evaluation can be made for the technical level and quality of the product.

4.1.1. The incentive additions for a new, highly effective product which in its parameters meets the best domestic and foreign models (recommended for certification for the higher quality category) are approved simultaneously with the wholesale prices (including temporary ones) for a period up to 1 year and for products of particular complexity with an extended production and assembly cycle,\* for a period up to 2 years.

If during the designated period the product is certified for the state Quality Mark, the effect of the incentive addition (without a change in its amount) is extended for the period set for the applying of the state Quality Mark. The overall period of the wholesale price addition is set up to 4 years and for products of particular complexity up to 5 years.

4.1.2. With recertification of the product and the awarding of the state Quality Mark a second time, the incentive addition to the wholesale price is reapproved in the same amount under the condition of an improvement in the technical and economic parameters of the given product and the reflection of these in the normative and technical documents. The amount of the addition and the period of its effect are cut in half if the technical and economic parameters for the product remain unchanged.

4.1.3. The total period for the addition for a specific type of product (including recertification of the product) is set in accord with the period of the incentive addition set for the new article for the manufacturing enterprise which first developed production of the given article.

4.1.4. In instances where the enterprise is deprived of the right to apply the state Quality Mark to the product, the effect of the incentive addition to the wholesale price is halted without any special decision by the price setting bodies.

4.2. In setting the incentive addition, consideration is given to the amount of the economic effect from the production and use of the new product (E). The amount of the addition is set within limits from 0.5 to 1.25 of the profitability rate set for the given or analogous product group, but not more than 70 percent of the economic effect.

The differentiation of the incentive additions, depending upon the economic effectiveness of the new equipment, is made according to the following standard scale:

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\*The list of such products is to be worked out and approved by the manufacturing industry (department) with the approval of the client ministry (department) (basic consumer), by the head ministry (department) in producing the product as well as by the GKNT.

Ratio of economic effect and wholesale price in % $(\frac{E}{P_n} - 100)$	Amount of incentive addition in % of normed profit	
	For achieving minimum limit of interval	For each unit within interval
15-35	50	0.20
35-55	54	0.25
55-75	59	0.30
75-95	65	0.35
95-115	72	0.45
115-135	81	0.60
135-155	93	0.75
155-175	108	0.85
175 and over	125	--

Note. Considering the specific features of the sectors, changes can be made in the given standard scale for the individual product groups of the USSR Goskomtsen.

4.3. In instances when it is impossible to calculate the economic effectiveness of the products which are a new model within a given parametric series or a continuation of it, the incentive additions are set in an amount (in percent of the wholesale price) as if for the first articles of this series.

4.4. If the advantages of the new product cannot be expressed in the form of an economic effect (environmental impact, safety procedures, the easing of working conditions and so forth) as well as in other justified instances, the incentive addition is set up to 30 percent of the normed profit.

4.5. The amount of the incentive additions to the wholesale price is increased in the following instances:

- a) For a new product the production of which is based upon developments recognized in the established procedure as discoveries or inventions--by 1.5-fold\*;
- b) For new integrated production lines, units and set--by 1.2-fold;
- c) For new products being manufactured to replace an imported product (purchased in freely convertible currency)--by 1.5-fold. Here the wholesale price with the incentive addition for such a product should not exceed the billed cost of the replaced article;

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\*The basis for approving an increased amount of the incentive addition is a ruling by the ministry (department) which manufactures (develops) the product approved by the ministry (department) which is the basic client on considering the inventions as the basis or basic element in a technical object. The ruling should also indicate that the given invention is being employed for the first time in the machines for such a functional purpose and for which the new product is to be used.

d) For a new product with reduced material and labor intensiveness--in accord with point 4.6.

4.6. For new products with reduced material and labor intensiveness and which in terms of its technical and economic parameters meets the best domestic and foreign models (recommended or certified for the higher quality category), the incentive addition is set in an amount up to 50 percent of the savings of the expenditures, but not more than double the profitability rate.

4.6.1. In maintaining constant technical and economic parameters in articles with reduced material and labor intensiveness and hence reduced costs, the incentive additions are to be set within the limit of the current wholesale prices for the product to be replaced.

4.6.2. If the improvement in the technical and economic parameters is accompanied by a reduction in material and labor intensiveness of the products, the amount of the incentive addition is set as the total of the additions for the effectiveness (the state Quality Mark) and the savings from reducing material and labor expenditures. The overall (total) amount of the addition cannot exceed a doubled profitability rate. Here the amount of the addition for effectiveness (the state Quality Mark) is set without considering the designated savings.

4.7. The incentive addition is set in the same amount in relation to the wholesale prices for the manufacturer and the consumer in employing two prices.

4.8. For export machine building products, the established incentive additions are employed under the condition that the wholesale price on the domestic market considering the incentive and export additions does not exceed the contract price.

4.9. For obsolete products which are to be taken out of production, wholesale price rebates are set in the established procedure.

Such obsolete products are sold to consumers at the wholesale prices without the rebates. The total rebates are transferred by the manufacturing enterprises to the income of the state budget.

## 5. The Net Product Norms for New Articles

5.1. The net product norms for new articles are determined in accord with the "Procedural Instructions on the Procedure for Working Out and Employing the Net Product (Normed) Indicator in Planning" as approved by the USSR Gosplan, the USSR Goskomsen, the USSR Ministry of Finances, the USSR Goskomtrud [State Committee for Labor and Social Problems] and approved by the USSR TsSU [Central Statistical Administration].

5.2. The net product norm is a part of the wholesale price of an article including the wages, deductions for social security and profit.

5.2.1. The amount of wages with the deductions for social security to be incorporated in the net product norm is determined by adding the following:

a) The wages (basic and supplementary) for production workers with the deductions for social security as set in determining the wholesale price for the corresponding costing items;

b) The wages with deductions for social security of the remaining industrial and production personnel (this is determined by calculation through the  $K_3$  coefficient).

5.2.2. The  $K_3$  coefficient is defined as the ratio of the wages for the industrial-production personnel of an enterprise (association) for the servicing and management of production to the wages of the production workers.

The  $K_3$  coefficients adopted in working out the net product norms are to be maintained stable (for the range of basic and supplementary price lists put into effect on 1 January 1982).

In the instances of the organizing of new production associations on the basis of previously independent enterprises, and with a substantial change in the level of overhead due to the completion of newly built enterprises and so forth, the  $K_3$  coefficients can be revised with the approval of the price setting bodies.

5.3. The net product norms set for previously produced products can be extended to new articles which in terms of their technical and economic parameters and quality meet or surpass the previously produced ones and with the labor expenditures reduced in their production.

#### 6. Determining, Approving and Coordinating the Wholesale Prices and Net Product Rates for Single-Order Products

6.1. The economic feasibility studies for the development of large and special-made machines, special production equipment and structural elements for enterprises under construction and reconstruction and manufactured according to single orders and not destined for future series production\* includes the calculating of a limit price and an economic effect in accord with section 2.

6.2. The wholesale price for single-order products is set proceeding from the planned cost and normed profitability.

6.2.1. The planned cost for single-order products is determined in accord with the current provisions related to the planning, accounting and costing of machine building products. Expenditures on designing, the preparation and development of production are considered in the cost of the corresponding article if this is manufactured in a single example or is distributed over the entire number of articles in the manufacturing of several examples.

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\*Henceforth--single-order products.

6.2.2. The profit to be included in the wholesale price for a single-order product is determined on the basis of the profitability rate provided for the corresponding product group in relation to costs minus the material expenditures. In calculating the profit, in addition to the material expenditures, the design expenditures are also excluded from the planned cost of single-order products.

For single-order products recommended or certified for the higher quality category, the amount of profit is set in accord with point 3.9.

6.3. In instances when the single-order product with an extended production cycle is delivered in units, assemblies and sections (with the presence of the appropriate technical documents for them), the wholesale prices can be set for the individual units, assemblies and pieces on the basis of their planned cost. Here the total cost of these assemblies should not exceed the limit price for the article as a whole.

6.4. For articles which are considered as single orders and produced as subsequent modifications (under the condition of an improvement in their technical and economic parameters), the limit and wholesale price as well as the amount of the economic effect are recalculated, including the effect from the additional quality improvement.

6.5. The incentive additions to the wholesale prices for highly effective single-order products recommended or certified for the higher quality category are set in accord with section 4. The conformity of the product's parameters to the best foreign and domestic models is confirmed on the basis of the procedure existing in the sector for assessing the technical level and quality of the product.

For particularly complex types of single-ordered products (point 6.3.) which are produced and delivered in individual completed units (assemblies) and pieces, the amount of the incentive addition set for the article as a whole is distributed between its individual units (assemblies) or pieces proportionately to the wholesale prices set for these. Payment for individually delivered units (assemblies) and pieces is made according to the wholesale prices with the incentive additions.

6.6. If during the period of manufacturing a single-order product there have been changes in the prices (rates) for the consumed materials, fuel, energy and preassembled goods causing an increase (or reduction) in the amount of the order, the appropriate adjustments are made in the agreed upon wholesale price with an additional agreement by the parties.

In those instances when design changes are made upon the client's request or the make-up of the article is changed, an additional payment is set on the wholesale price with the additional agreement of both the manufacturer and the client.

6.7. In setting the wholesale prices for single-order products, the net product norms are set simultaneously in accord with section 5.



6.8. For the single-order articles, the wholesale price and the net product norm are in effect for the period of carrying out the order. In the establishing of additional payments on the wholesale prices with the additional agreement of the manufacturer and client, additional payments may also be set for the net product norm (considering the wages and profit in the additional payment above the wholesale price).

6.9. In the event of a reorder (including by another client), the wholesale price, the incentive addition and the net product norm are reset. Here from the planned cost they exclude the expenditures on designing and the preparation and starting-up of production. For third and subsequent orders for the manufacturing of the given product, the wholesale prices and the net product norms are to be approved by the USSR Goskomtsen.

6.10. Wholesale prices and net product norms for tractors, turbines, generators, bulldozers, excavators, drilling platforms and semiplatforms, other drilling equipment and mining equipment for open-pit, underground and underwater methods, seagoing, lake and river self-propelled and non-self-propelled vessels, as well as equipment for nuclear power plants manufactured as a single order, regardless of the number of articles and their cost, are to be approved by the USSR Goskomtsen and for the appropriate product range by the Union republic state price committees.

6.11. The wholesale price and the net product norm for single-order articles, with the exception of those indicated in point 6.10., are approved by the manufacturing USSR ministries (departments) with the approval of the client ministries (departments) no later than 3 months prior to the start of production.

For the approval of a wholesale price a manufacturing ministry (department) forwards to the client ministry (department) the following materials:

- a) The costing materials for the given product with a breakdown of the material and labor expenditures as well as the reasons for including the development expenditures in the costs;
- b) The normative and technical documents with an informational chart for calculating the economic effectiveness and the prices, a chart for the technical level and quality, and the ministry's grounds for considering the product as a single order;
- c) Calculations for the economic effect and incentive addition;
- d) An agreement protocol\* for the wholesale price and incentive addition.

The client ministry (department) is obliged no later than a month after receiving the draft wholesale price with the required calculation materials and

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\*For large-sized single-order products, provision is made for paying for the final assembly and additional manufacturing at the client's site in the event that the product is delivered in units (assemblies).

technical documents, to state its approval of the planned price or submit valid arguments against the price. Otherwise, the price is considered approved.

6.12. Differences over the wholesale price level arising between the ministries and departments are reviewed upon request of the manufacturing ministry on the basis of the client's contesting document by the USSR Goskomtsen, the decision of which is final.

6.13. Wholesale prices for single-order articles which exceed 500,000 rubles are to be registered with the USSR Goskomtsen.

The manufacturing ministries (departments) within a 10-day period after the approval of the wholesale price and the net product norm are to submit to the USSR Goskomtsen the materials designated in point 6.11. for the registering of the approved wholesale prices.

The USSR Goskomtsen within a 2-week period reviews the materials on the wholesale prices for single-order products and takes the corresponding decision to register them or to refuse to register them (in the event of a violation of the established procedure for setting prices, an unjustified level, an arbitrary classifying of the product as single-order and so forth).

6.14. The procedure for determining, approving and ratifying the wholesale prices as envisaged in the present section is not to be extended to products manufactured under single orders where the wholesale prices for the product are set by the manufacturing enterprise with the agreement of the client enterprise.

From the moment of the ratification of the current procedure, the following are to be considered invalid:

1. "The Procedure for Determining Wholesale Prices for New Production- and Technical-End Products" as approved by the USSR Goskomtsen with the agreement of the USSR GKNT of 26 April 1974, No 10-15/960.
2. The Letter of the USSR Goskomtsen and the State Committee for Inventions and Discoveries "On Setting Incentive Additions to Wholesale Prices for New, Highly Efficient Products Which Have Been Awarded the State Quality Mark When the Production of These Products is Based on Developments Recognized in the Established Procedure as Discoveries or Inventions" of 18 July 1980, No 10-17/3136 and 25 July 1980, No 10/29-1093/43.
3. The Letter of the USSR Goskomtsen "On Price Encouragement for Reducing Material and Labor Intensiveness of New Machine Building Products" of 5 May 1981, No 10-17/1920.
4. The Letter of the USSR Goskomtsen "On Price Encouragement for Reducing Material and Labor Intensiveness of Modernized Machine Building Products" of 15 July 1981, No 10-17/2894.
5. The Instructions "On the Procedure for Setting Prices for Certified Products" as approved by the Goskomtsen under the USSR Gosplan of 8 October 1969, No 10-15/1850.

Moscow EKONOMICHESKAYA GAZETA in Russian No 6, Feb 83 p 15

[Article by N. T. Glushkov, chairman of the USSR Goskomtsen: "A Factor in Accelerating Technical Progress"]

[Text] The Chairman of the USSR Goskomtsen, N. T. Glushkov, comments on the new "Procedure for Determining Wholesale Prices and Net Product Rates for New Machinery, Equipment and Production- and Technical-End Instruments."

As is known, on 1 January 1982, in accord with the party and government decisions on improving the economic mechanism, new wholesale prices and rates were put into effect in industry. This measure was aimed, in particular, at raising the product technical level and quality.

In May 1982, the USSR Goskomtsen and Gosstandart [State Committee for Standards] established that the revision of standards, technical conditions and wholesale prices was to be carried out only in introducing new, more progressive indicators, standards and requirements or a change in the current ones with a compulsory improvement in consumer properties, a reduction in metal and energy intensiveness and an improvement in the technical level, quality and efficiency of the product.

In the aim of further strengthening the effect of wholesale prices on improving product quality, accelerating the development of new, highly efficient equipment and replacing obsolete equipment, the more rational use of production resources and a reduction in product costs, the USSR Goskomtsen with the participation of the USSR Gosplan, the USSR Ministry of Finances, the GKNT and the Goskomizobreteniy [State Committee for Inventions and Discoveries] in December 1982 approved a new procedure which is being published today in this newspaper.

What are the basic areas for further improving price formation for new equipment as envisaged in this method?

According to the previous method, the wholesale prices were formed on the basis of the production expenditures in the second-third year of series production and normed profit. The one-shot survey of machine building enterprises conducted by the USSR TsSU showed that the profitability of new equipment during the first 3 years of its output for many types of products was below the average profitability of previously developed products.

What was the reason for the decline in profitability? The problem was that the increased expenditures related to the first period of producing the product were to be recovered from the centrally held money of the unified scientific and technical development fund (YeFRNT) and not included in the wholesale price of the new equipment. Recently the incentive of the enterprises to use the money of the fund has been increased since the value of industrial-type work related to the development and introduction of new equipment is accounted for in the volume of commodity product with the adding of the normed profit. However, the amount of this fund clearly does not cover all the expenditures related to the creation and development of new equipment.

Analysis has shown that basically the YeFRNT is used for financing scientific research and experimental design work while it is utilized in insignificant amounts to compensate for the increased expenditures during the first and second years of producing the new products with these expenditures, as a rule, being included in product costs. As a consequence of this the profitability of the new products in a number of instances has been significantly lower than the previously developed products. This is why it has been necessary to review the question of the sounder utilization of this fund combined with an improvement in price formation.

The new procedure has stipulated that wholesale prices for new highly efficient products are to be determined proceeding from the planned cost of the first year of series production (with the exception of the expenditures related to the preparation and development of the product which are to be covered from the YeFRNT) and the level of planned profitability (but not lower than the normed) for the manufacturing enterprise for the year of developing the new equipment.

If the equipment is being modernized or replaced by new, then the profit used in setting the wholesale price is set in an amount not lower than the profit which would be obtained in producing the replaced or modernized product. In addition, for the most important product types, the total expenditures related to the development of new equipment with the addition of the profit to them can be fixed directly in the price lists. In this instance the wholesale prices for the new equipment and the fixed additional payments from the YeFRNT guarantee the manufacturer the recovery of the economically justified expenditures and the obtaining of the necessary profit.

Measures have also been provided for an additional encouragement for producing new equipment with reduced material and labor intensiveness. The procedure to be put into effect in 1983 provides that with a reduction in the material and labor intensiveness of a product, with a simultaneous maintaining or improving of its quality, the entire difference in cost (savings) is considered in the price for the new product as additional profit for the manufacturing enterprise.

The wholesale prices for such products are to be maintained on the price level for the replaced equipment, but for higher quality products up to 50 percent of the savings is accounted for in an incentive addition the maximum amount of which has been increased up to double the profitability rates. Of course, with the same quality, the wholesale price with the incentive addition cannot exceed the price of the base article.

Let us recall that since 1979 there has been the predominant encouraging of new, highly efficient products, where their production are based on developments recognized in the established procedure as a discovery or invention. Incentive additions increased by 1.5-fold are set for the wholesale prices for such products.

In the new method, the procedure for setting the incentive additions increased by 1.5-fold is to be extended to new, highly efficient superior quality products manufactured in place of imported products. This will increase the incentive of the design organizations for developing new equipment.

A procedure has also been set for establishing incentive additions on wholesale prices for new articles which protect the environment, improve safety methods and ease working conditions, that is, in those instances where the calculating of economic effectiveness is difficult. It has been established that in incorporating improvements of just social parameters in the design of new equipment, with the approval of the consumer, incentive additions up to 30 percent of the normed profit can be set for the wholesale prices for this equipment.

For the first time, the method includes a unified procedure for determining, approving and ratifying wholesale prices and net product norms for large and specially made machinery, special production equipment not designed for further series production, that is, for single-order products.

The measures envisaged in the method to encourage production relate to new, highly effective superior quality equipment and provide a reduction in the cost of new products for the consumer. In other words, the wholesale prices for the new equipment are set within the limits of the economic effect for the new product.

It is essential to emphasize that the adopting of the costs for the first year of series output of new equipment as the base for calculating the wholesale price does not mean that any production expenditures will be taken into account in forming prices. Provision has been made for a careful varification of costs considering the approved standards and norms and the indicators for proportional product material and labor intensiveness. Of course, unjustified expenditures related to the above-norm consumption of raw products and materials, to the violating of the planned dates for developing the new product, irrational economic contracts for product deliveries and other deviations from normal conditions of production organization cannot be taken into account in setting prices.

Prices are capable of actively influencing the development of highly efficient equipment even in the initial stages of its designing. The technical specification should include a limit price which makes it possible to determine the economic and social advisability of developing the new product.

The methodology in effect in 1969-1982 for setting limit prices had been subjected to serious criticism, since it did not prevent the design organizations from "running up" expenditures to the level of the so-called upper price limit and proper attention was not paid to designing equipment with the least expenditures.

The new method fundamentally alters the procedures for forming limit prices for new equipment. The limit prices should be set in the same manner as wholesale prices, that is, proceeding from the planned sound expenditures and profit. The amount of expenditures on production (costs) and, respectively, the limit price are adjusted as the initial information is acquired and its reliability is increased, starting from the technical specifications to the putting of the product into production.

It is also possible to adjust the limit price considering the additional expenditures aimed at raising the technical level and quality. The limit price should not "impede" the development of new equipment. Of course, here it is essential to check the limit price in the aim of reducing its level per unit of end useful effect.

The method provides for a reduction in prices per unit of end useful effect by at least 15 percent, that is, the coefficient for the relative reduction in the cost of the new product is 0.85. In essence, this is an average coefficient for a relative reduction in cost guaranteeing the consumer a reduction in the limit price per unit of end useful effect as existing over the last 5 years. This coefficient can be differentiated considering the sectorial features of the production and use of the product.

The new method for determining limit prices ensures succession in the setting of wholesale prices and monitoring the expenditure level over the stages of creating the new equipment. Even in designing it makes it possible to establish the economic effectiveness of the new equipment, the possible level of the incentive additions and the additional deductions into the economic incentive funds of the scientific research and design organizations and the enterprises manufacturing the new equipment. This is why, simultaneously with the calculating of the limit price, the national economic effectiveness which the new equipment provides should be determined.

The method outlines additional measures to increase the responsibility of both the manufacturer and the consumer of the product for the decisions taken and for the reliability of the agreed-upon economic effect. In particular, it is stated that the consumer (operational) and adjustable social indicators of the new product accounted for in price formation should be set down in the normative and technical documents and this will make it possible to monitor the actual product quality and the conformity of the calculated effect to the real.

Thus, the new method provides, in the first place, a price-based strengthening of the incentives for the design and engineering organizations and the manufacturing enterprises to create and rapidly introduce into the national economy highly efficient new products which in their parameters conform to the best domestic and foreign models and at the same time require for their production relatively fewer proportional expenditures in comparison with the previously developed products. Secondly, there are increased economic soundness of the prices and the ensuring of a relative reduction in the cost of the new product per unit of end useful effect and the providing of a stimulating role for the incentive additions in renewing the products and in increasing their technical level, quality and effectiveness.

At present the USSR Goskomtsen and the Gostandart are revising the instructions on the procedure for the coordinated revision, ratification and introduction of standards, technical conditions and prices for machine building products.

A further improvement in price formation for machine building products is of particularly important significance as this sector is a key one and technical progress depends largely upon its successful development. Precisely in machine

building we should fully realize the demands of the CPSU Central Committee and the USSR government on saving metals and other resources with a simultaneous improvement in the quality, productivity and efficiency of the equipment.

10272

CSO: 1820/53



## INVESTMENT, PRICES, BUDGET AND FINANCE

### PRICE INCREASES FOR 'SCARCE GOODS' IN SOVIET UNION

Zurich NEUE ZUERCHER ZEITUNG in German 25 Feb 83 p 15

[Article by H.K.: "Price Increases for 'Scarce Goods' in Soviet Union"]

[Text] Moscow, 23 February—4 weeks have now passed since Andropov went calling on "members of the working class" at a Moscow machine tool plant and there spoke of price increases he did not specify in detail. In the meantime, there has been no official announcement concerning the price increases surreptitiously introduced in the retail trade and the service sectors. It is not quite clear what the purpose of all this secrecy might be. On previous occasions when similar concerted actions were taken, the chairman of the state committee for price policy did not hesitate to go public. On the other hand, there were adjustments in retail prices over the past few years—most but not all of the upward variety—which were not specifically announced. In that sense, there is no way of properly comparing present practice with that during the Brezhnev era. But at least unofficially there seems to be no doubt that prices for a whole range of goods and groups of products as well as services have already increased quite substantially in some instances. The purpose seems to be to dampen demand for certain goods until now classified as scarce for which the plan apparently does not envisage correspondingly higher production quotas.

#### Nothing But Speculations

Rumors about impending measures that might affect the pocketbooks of average consumers have been making the rounds since January and speculations concerning the introduction of a motor vehicle tax—which have not come up for the first time, either—are said to have hurt the used car market in the sense that good buys do not sell as well as they did in spite of potentially high demand.

Even at this stage, it is difficult to obtain a clear picture; but a Norwegian parliamentary delegation which recently visited Moscow is said to have obtained a list of price changes introduced in February which is supposed to include some 30 goods and services. Various construction materials as well as wood and bricks are said to have risen in price by 30 to 40 percent; paints and varnishes by 60 percent and wallpaper by 15 percent. According to this unconfirmed information, the price of household machines is said to have increased by 50 percent; that of cutlery by

80 percent; that of electrical equipment by 50 percent and that of pots and pans by 20 percent. The biggest price increases were made for motorcycle spare parts (100 percent); photo articles (100 percent); music accessories (100 percent) and for notoriously scarce knitting yarn (200 percent). Phonograph records and paper goods as well as hunting rifles and ammunition rose in price by 50 percent, it is said. In foods, veal which is rarely to be had in the state stores rose by 74 percent; dry white wine by 11 percent; lemonade by 20 percent and the saline "Borshomiy" mineral water by 32 percent. Cooking gas is said to have risen by 38 kopecks per unit and bottled gas (for use in the country) by 75 kopecks. The list also includes increases in parcel postage and telephone installation charges.

#### Dearth of Information

The price increases announced in September 1981 above all concerned luxury items like alcoholic beverages, tobacco and jewelry and also included sharp rises in the price of gasoline of up to 100 percent. At that same time, there was an announcement of price reductions for certain synthetic dress materials, certain prescription drugs and watches. In the summer of 1982, for example, postage on letters abroad was increased in the absence of any official announcement. It remains unclear why the authorities failed to make an announcement this time even though the selection of goods is fairly large and the price increases, in some cases, are substantial. Perhaps this is one more indication of the general trend to limit the publication of official economic data. When he visited that plant in early February, Andropov ruled out price increases as a nonspecific means of establishing an equilibrium between the supply of goods and the pocketbooks of consumers while at the same time holding out the prospect of eliminating "well-known" distortions and inequities in the price structure. But there seems to be a conscious effort of leaving the public in the dark as to where the dividing line between the two might be.

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# USSR Report

ECONOMIC AFFAIRS

No. 1045



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16 March 1983

# USSR REPORT ECONOMIC AFFAIRS

No. 1045

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## ECONOMIC POLICY, ORGANIZATION AND MANAGEMENT

### NEW DIRECTIONS FOR ECONOMIC PROGRESS OUTLINED

Moscow EKONOMICHESKAYA GAZETA in Russian No 2, Jan 83 p 15

[Article by V. Pavlenko, deputy division chief of Gosplan USSR, doctor of economic sciences: "The Development of Specialization and Production Integration".

[Text] The development of our single all-union economy is based on objective, interconnected economic processes--of the social division of labor (in its branch and territorial forms) and its cooperation, and then its integration. As the territorial division of labor deepened and covered new areas it simultaneously signified a strengthening of territorial cooperation--inter-republic and inter-regional.

As was noted by the 26th CPSU Congress, the party's policy envisages an increase in the material and spiritual potential of every republic and, at the same time, the maximum use of this potential for the harmonious development of the entire country. In his report "Sixty Years of the USSR" Yu. V. Andropov emphasized: "The modern productive forces require integration even when it is a matter of different countries. All the more so is it true that they require a closer and skillful unification of the efforts of different regions and republics in one and the same country. The most judicious use of the natural and labor resources and of the climatic characteristics of each republic, and the most efficient inclusion of this potential in the all-union potential--this is what will yield the greatest advantage to each region and to each nation and people, as well as to the entire state."

#### The Specific Nature of Specialization

The territorial division of labor is reflected in the special characteristics of the development of each republic and each economic region above all through their specialization in the single system of our all-union economy. But this process also has another side which becomes steadily stronger as specialization develops. We are speaking about the combination of the interests of all of the union republics and of the interests of each of them with the interests of the country as a whole, about the strengthening of their economic relations.

The specialization of the union republics and of the economic regions is based on objective preconditions. On the one hand, on land, water, mineral, fuel and energy, and other natural resources and geographical conditions, and, on



the other, on economic characteristics. The latter include an economy's level of development and specialization, the labor skills of the population, labor resources, economic and geographic position and transportation conditions, and inter-regional relations.

In the USSR the planned nature of the territorial division of labor is combined with a goal which proceeds from Lenin's nationalities policy of the constant development of all of the nations and peoples inhabiting our country. Economic considerations are supplemented by political ones, and the interests of the country by the interests of each republic. This manifests itself in the fact that in the Soviet Union there is not and cannot be a single union or autonomous republic with a one-sided distorted specialization in one or two products, as is the case in many of the developing countries. Instead of a specialization in any raw material branch, specialized inter-branch complexes are developing in the Soviet Union's union and autonomous republics.

The republics of Central Asia serve as a convincing example of this. The development of their historical branch of specialization--cotton growing--was accompanied here by industrialization and the rapid growth of the service branches of industry: cotton and irrigation machine building, and the production of mineral fertilizers and chemical cotton plant protection agents. The cotton processing branches also developed--cotton ginning, the cotton textile and oil extracting branches, and also textile machine building and the knitwear and garment branches which to a substantial extent operate on the basis of cotton raw materials. In this way, a powerful inter-branch complex was formed.

Similar examples could be cited for the autonomous republics. On the basis of Bashkiriya's petroleum extracting industry, for example, there arose a powerful petroleum refining branch which, in its turn, became the basis for petrochemical and chemical branches and the machine building productions connected with them.

The dynamic growth of specialized inter-branch complexes is increasingly becoming the basis for the development of the union republics and economic regions, and for the economies of all of the nations and peoples. Their contribution to the accomplishment of general state and regional tasks is increasing on this steadily growing and solid basis. As an example, one can cite the role of Kazakhstan in the solution of the food problem.

Along with branches of specialization and inter-branch specialized complexes, other branches of the economy and a production and social infrastructure is developing in the union republics and economic regions. Their growth is aimed at a harmonious and overall economic development, not a closed development, but a maximally completed one in measure with economic validity and in combination with general state interests.

#### The Internationalization of Economic Life

The high levels of development which have been achieved by the Soviet nations are the result of their fraternal aid and cooperation. For example, before the

creation of heavy industry in them, the Central Asian republics were supplied with irrigation equipment, agricultural machinery and tractors, spinning and weaving mills, cement, and mineral fertilizers from the European areas of the RSFSR and from the Urals and the Ukraine. The assistance of qualified workers and engineering and technical cadres was of enormous importance. The change in crop structure in connection with the development of cotton growing required the importation of grain from other regions. The Soviet state's measures in the field of prices, credit, and capital investments also played an exceptionally important role.

Today, when the task of equalizing economic development levels has been basically accomplished, all of the union republics are able to play an important role in the achievement of all-union goals. The country's petroleum and gas base in Western Siberia was created by all of the republics and nations and is developing successfully. It has a decisive place in the all-union system of the territorial division of labor for fuel resources. BAM is being constructed through joint efforts, and large territorial production complexes are being formed in the same way.

Close economic relations on the basis of a socialist division of labor are characteristic, of course, not only for previously backward or newly developed regions. The Ukraine, for example, is an all-union supplier of ferrous metals, many types of machinery and equipment, coal, grain, sugar, vegetable oil, and animal husbandry products. At the same time, it receives from other republics substantial quantities of timber materials, petroleum products, nonferrous metals, chemical industry output, fabrics, and machinery.

The increasing internationalization of economic and all of social life is making it possible to accomplish the increasingly complex tasks of creating the material and technical base of communism and of improving the well-being of the people.

The problem of proportional and balanced development is one of the dynamic problems which has retained its importance at every stage, but on an ever broader base. The attained relationship between the levels of the economic development of the individual republics and regions which characterize the results of the equalization process cannot by itself be preserved for a long time. It has to be maintained and perfected by planning with regard to changes in the siting of the productive forces and of the concrete tasks facing each republic and each region in a given 5-year period.

But this is not the only point. There also remain such objective problems as finding the most correct paths for the development of the individual republics, and a correct combination of the interests of each of them with the general interests of the Soviet people as a whole. Note was taken at the 26th CPSU Congress of the necessity for equalizing the social differences and the cultural and everyday living conditions of people in the territories, having in mind the provision of labor resources for Siberia, the Far East, and the North, and the permanency of cadres there.

By developing in our single economic complex the union republics are able to most efficiently develop their productive forces, utilize their natural and labor resources, create an appropriate economic structure, and ensure its overall development. But when we ask ourselves the question--what is the effect of a complex?--this is not the only point. All-union economic management and planning have made it possible to efficiently approach the siting of the productive forces, have ensured freedom of economic maneuvering, and have made it possible to deepen cooperation and specialization under which the common gain greatly exceeds the efforts of each republic, rayon, and oblast.

And a second circumstance. As the specialization of the economies of the different parts of the country grows, and as the resources of new areas are brought into economic use there is a constant increase in the intensity of the economic relations between them.

These relations are achieved through the unified systems of the production infrastructure which make up as it were the framework of the material and technical base of the country's economic complex. We are speaking about the country's unified energy system, unified transportation system, and unified gas supply system. Along with the traditional economic management for branches and ministries, a wider economic approach in the formation of all-union inter-branch complexes is gaining strength. Their spacial and territorial confinement determines the all-union specialization of republics and regions in our unified economic complex.

#### The Strengthening of the Unified Complex

The 26th CPSU Congress set the task of strengthening the USSR's unified economic complex and the proportional growth of all of its branches and of the economies of the union republics.

The further successful development of the unified economic complex requires a fuller and more skillful combination of the branch and territorial principles in the management of the economy in order to move to a primarily intensive path of economic growth. Thus, a sharp increase in the economic validation of the siting of industrial construction is essential. It will be necessary to complete the development of a general plan for the siting of the country's productive forces, and of plans for the branches, union republics, and economic regions. The branch and territorial plans have to contain materials which validate an expansion of operating and construction of new enterprises. Consequently, these plans are now becoming an effective instrument for improving production siting planning.

The most important thing is an absolute compliance with siting decisions which have already been made, and a resolute struggle against voluntarism and a departmental approach in the siting of large enterprises, especially machine building enterprises in large cities.

An economically valid siting of industrial construction has a manifold significance. It cannot be reduced to a decrease in production costs and in the cost of delivering individual types of output, but actively influences the character of specialization and the degree of the overall development of the economies of the union republics and economic regions, and the growth rates of their production potential and of the use of labor resources. Only essential progressive changes in the siting of a number of branches of industry--ferrous metallurgy, the chemical and petroleum refining branches, construction materials, woodworking, and milling--can ensure a decrease, and then the elimination of irrational freight shipments, and this is of great importance for railroad transport.

No less important is a well-conceived approach to determining the optimal specialization for each republic and each economic region. In the final analysis, it is specialization in the all-union economic system which determines the territorial and, to a considerable degree, the general efficiency of our single economic complex. Such an approach presupposes a careful analysis of all of the capabilities of the republics and regions, and a correct evaluation of the multi-purpose resources contained in them.

The above-examined directions are inseparably bound together. They are different aspects of the single problem of increasing the role of the territorial factor in the intensification of economic and social development. From the rational siting and specialization of enterprises to the economically valid specialization of large territories (regions, republics, territorial production complexes)--such is one of the chief directions in solving this problem.

2959

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## ECONOMIC POLICY, ORGANIZATION AND MANAGEMENT

### MOSCOW TV DISCUSSES MANAGEMENT, LABOR PRODUCTIVITY

Moscow Domestic Television Service in Russian 0835 GMT 3 Feb 83

["Lenin's University of the Millions" program devoted to "economical economics," presented by Pavel Grigoryevich Bunich, corresponding member of the USSR Academy of Sciences]

[Excerpts] [Bunich] Good evening, comrade television viewers, our economic series naturally deals primarily with management of the economy. However, you also know that economics in itself is not the ultimate aim of mankind's existence. In this sense economics may even be called an intermediary product, with the end product being man, his rise and growth. It is very important for us in our programs to elucidate this special aspect of management, namely, how management moulds a person.

Our last program was devoted to the problems of intensifying socialist public production. In it we indicated that the basic factors of intensification are: first, a better utilization of labor resources; and second, a better utilization of fixed capital and capital investments. Now, regarding the third factor, allow me to give the floor to academician Abel Gezevich Aganbegyan, director of the Economics and Organization of Industrial Production Institute of the Siberian Department of the USSR Academy of Sciences.

[Aganbegyan] The third factor that I would like to especially note is the problem of fuel and raw materials, what has happened here? Why such a sudden change; namely, why has the increase of fuel and raw materials been reduced by 250 percent? This is very close to my immediate work since I live and work in Siberia, and most of the time, of course, I study the problems of exploiting resources in Siberia.

If we take the fuel and energy resources, in other words the coal, oil and gas reserves, in our country, then the European part of the country and the Urals, contains only 10 percent, whereas Siberia and the Far East have more than 80 percent of all fuel and energy resources. The population, the fixed capital, the main industries historically have been in the European part of the country and in the Urals. These regions account for approximately 80 percent of all industrial production. Siberia and the Far East produce approximately 12 percent. Thus, an extremely complex task faced the country.

The main fuel and energy base had to be shifted to Siberia, the main emphasis for increasing lumber procurement had to be shifted to Siberia, and so on.

We have engaged in this work very intensively in the last 10 years. I must say that conditions became more complex in the 10th 5-Year Plan period, during which the fuel and energy bases of the European part of the country and the Urals began reducing fuel extraction. On the whole fuel extraction was reduced there by almost 100 million (?standard) tons during the 10th 5-Year Plan. Thus Siberia and a number of other regions were faced with the task of defraying the reduction and increasing their extraction. I must say that generally our country successfully coped with this task under these unprecedentedly complex conditions.

However, all this was not without difficulties, for this was a most complex process, this transfer of enormous capacities [baz] of this huge country. Moreover, capacities directed not only at meeting internal demand, but also that of socialist countries, CEMA countries, who do not have developed extractive industries and who do not have the raw material and fuel reserves that our country has. We supply and trade with these countries in oil, gas, coal, minerals and many other kinds of raw materials.

Of course, this was not easy for us. You know that the whole infrastructure had to be established anew in new regions. There was enormous expenditure on transportation. You know that it is about 3,000 kilometers from Siberia to the industrial centers in the European part of the country. We are building the largest pipelines in the world. Enormous amounts of coal are supplied by railroad. All this means capital and more capital. It turned out that under these conditions it was necessary to spend 250 percent less capital to save 1 ton of fuel, than to extract this same ton.

Economy, through technical progress and material incentives, is simply a vitally important task. We have examined various types of resources, labor forces, capital, capital investments, fuel and raw materials and have seen that we need very serious reconstruction in all areas. We have become accustomed nevertheless, to managing things by emphasizing the expansion method--if more needs to be produced, let us have more fuel, more raw materials, let us have capital, build a new plant: we will produce, we will hire more manpower. It is now no longer possible to manage things this way, and it is not efficient. [passage omitted]

[Bunich] We have already forgotten certain social aspects of management because we have solved them. We have no exploitation by man of man in this country, and of course this unnatural state, when one man exploits another, and overcoming this, is enormously significant in satisfying all the other needs of man. We have no unemployment and thereby a man has not only what is called a source of existence, but also has a place in life. He is not detached from life, he is not a superfluous man. However, in satisfying these issues much still remains that comes under the concept of the social aspect of management.



I would like to stipulate that, with the division of labor, every enterprise of course does something not for itself, but for the whole country. Therefore, when we talk about the social aspect of management, then what the enterprise does economically, what it contributes to the communal kitchen for the whole population, is its primary contribution to the solution of social problems. At the same time, however, there are such social problems that remain the lot of the collective, i.e., that the collective itself must solve. I will name some of these problems.

First and foremost is the standard of living. It is an extremely important task. This standard of living is determined by the person's receiving benefits produced by the whole country and by all enterprises, not only his own. At the same time, however, many positions of the standard of living are determined precisely at a given enterprise. The correctness of determining wages stands side by side, goes hand in hand, with standard of living questions. [Passage omitted on address by N. V. Petrov, director of a Construction Workers' House of Culture in Mikhaylovka, Volgograd Oblast, on recreational activities there.]

We are saying that people's most important requirements are, to an increasing degree, cultural items. This does not only mean going to movies and theaters which represent other walks of life. Major studies are being conducted at certain enterprises on forming a person's cultural makeup. And when we talk about effectiveness of management, it would be highly superficial, a joke, an oversimplification on our part, if we threw out, or worse, if we underestimated those important social criteria with which the actions of management at an enterprise should be assessed. [Passage omitted on Bunich introducing film report on social and cultural services provided by an unidentified enterprise and an interview with a party committee secretary.]

A sociological survey was conducted some years ago in Leningrad, when the workers themselves were asked various questions. It so happened, although I have my doubts as to what extent these figures can be believed, that material rewards were ignored, that is, they were not put first, or second, etc. Labor conditions were considered most important. Not exactly comfort--this is a very lofty word, and generally there is still probably a long way to go until we attain comfort in labor--but labor conditions were rated first and the creative content of labor was rated second.

I feel that material things were put aside perhaps for a number of reasons. Perhaps because we pay such good wages, in many ways regardless of whether a person works well or poorly, so that he is no longer aware of it to the extent that he would be if he worked poorly and earned nothing.

We have many letters that say that the human factor should be taken into account. We received such a letter from Comrade (Golomanovskiy) from Rostov-Na-Donu. He suggests that the human factor should be taken into account more. He is quite right here, but I feel that the very word human factor may perhaps set us off in a slightly wrong direction. The fact is that when one talks about the human factor one has in mind how a person should be utilized in order to obtain the best efficiency. In other words, he is considered in



turn not as an ultimate end but as a means for attaining this end. In reality, of course, the social effect has a reverse influence on the economy. We will be talking about this, but nevertheless an equals sign cannot be put between these two sides. One cannot say that this reversal of the social effect on the economy must without fail be not less than what we spend on the social effect. All the same, this social effect is the highest criterion and therefore, for the time being, it is better if we talk about the person as an end, as the most important social item, and not only about the fact that if we treat the person well he will repay this a hundredfold and labor productivity will rise as well.

Moreover, when this letter speaks about the human factor, it somehow reduces it to the fact that this person should be given more stick and no carrot. It says here: If we take the customary old carrot and stick method, then at least you should punish overexpenditure of raw materials, but under no circumstances reward economy.

If I were (?forced) to choose between these two things, I would choose the carrot. Only when the carrot unfortunately turns out to be insufficient for some people, then one also has to add the stick to it. We do this so far as it is necessary, and many of the measures currently implemented are directed at this, regarding those people who in no way respond to the carrot. [Passage omitted on film report noting the importance of creating good conditions for highly productive labor and a talk by P. S. Belikov, manager of the Saratov Motor Vehicle Cargo Transport Production Association No 2, on violations of labor discipline.]

[Bunich] The idea of the influence of management on social questions is a very integrated and broad idea. Creative labor: You know that here man has the machine, and therefore the matter of implementing creative labor--and creative labor is a human requirement, just as natural as eating, sleeping, breathing and so on--and conditions for it are created primarily at the enterprise.

Hugo once said that to think means to labor. The idea that to think means to labor here is that the thinking process is not a freak of the imagination, that a difficult life is a horrible drudgery to which a person--this creative person--is doomed. However, in line with the development of our productive forces, another formula, the contrary formula, becomes more and more important, namely, that to labor will mean to think, and when it becomes so, then for each person labor will become a real pleasure.

Aristotle once said that a vacuum does not occur in nature. Subsequently, many scientists, most notably Torricelli, corrected him, proving that vacuums do exist in nature. However, it is true that human nature does not tolerate a vacuum in life, a vacuum in work and a vacuum of substance and when we speak of creative labor, it should always be understood that this is one of the most important social aspects of direct management at enterprises.

Management and ideology. Can one imagine passive management that is in no way related to ideology? This would be a half-baked management, and perhaps

deserves a worse definition. Management without fail utilizes ideological levers, and with these levers ideologically raises man, and raising man ideologically is raising man generally, that is to say it is an independent and very important task.

Whether a man goes to work as if to a celebration, very willingly, to a collective where he finds like-minded people, friends, helpmates and generally to a microenvironment which satisfies him psychologically, depends first and foremost on the enterprise. Much also does not depend on the enterprise and this also enters into the idea of the social aspect of management. One of the indicators is whether the microenvironment is good or bad. This cannot be measured in rubles but its gauges are special and these special gauges are no less influential, if not more so than rubles.

When one talks about social effects, one of course should also not forget such overall national and problematic tasks as overcoming the essential difference between the city and the countryside. When this is overcome, then we will indeed install a base under the rural economy whereby people will strive to work there and will receive full satisfaction, that is a much better base than exists today. Incidentally, this follows from the food program that you are aware of, and here also we find the problem of intellectual and physical labor, and so on.

Some sort of subordination, some sort of correlation exists between the social effects we have mentioned previously. What is stronger, what is weaker? What is first, what is second? This is a very difficult problem. I am not convinced that I know how to arrange all these points. [Passage omitted on film clip and interviews on recreational and everyday services provided at the Saratov Cargo Motor Vehicle Transport Production Association.]

[Bunich] I think that a person's feeling that there is order in the world is also a social effect. Without this he cannot have social satisfaction. Here I am not only talking about the psychological atmosphere at the enterprise. I believe we have spoken about it in a sense, about the psychological atmosphere at an enterprise, and a good psychological atmosphere without order is not order, that is order in general.

There are letters that talk in a worker-like way, excellently, graphically, strongly, and powerfully about this. Comrade (Bibikov), from 32 Voroshilov Street, Kletnya Station in Bryansk Oblast, wrote to us: Believe me, this is not just my thought alone. The hearts of many workers grow weary seeing the scandalous mismanagement at many enterprises. The heart grows weary indeed. This also not only enters into the economic aspect, it enters into the social satisfaction with life, that is the social effect of management. [Passage omitted on film report on Saratov Production Association including talk by Belikov on workers appreciating good labor conditions.]

The social effect exerts a reverse influence on economic effects, and in this sense the social effect, being an end, suddenly turns out to be a means, the means of the person himself. Through this means he enlarges himself once again, once again reproduces himself on a broader scale.

Recently our country and all progressive mankind marked the 60th anniversary of the formation of the USSR. The report by Yuriy Vladimirovich Andropov, general secretary of the CPSU Central Committee, at the joint meeting of the CPSU Central Committee, the USSR Supreme Soviet and the RSFSR Supreme Soviet, noted the great achievements our All-Union republics have made. However, it implies and also states directly that these achievements were made possible because of the enormous fraternal assistance of the more developed republics to other republics which were formerly in a state of backwardness, a much less developed state.

This assistance is yet another example, a striking example, of how the social effect and social considerations exerted an active reverse influence on the economy, by creating an accelerated growth of the economy of formerly backward territories and regions of our country's formerly backward republics. [Passage omitted on announcer saying that the next program will deal with problems of the effectiveness of social factor influences on the economy.]

CSO: 1820/76

## INVESTMENT, PRICES, BUDGET AND FINANCE

### REPORT ON INVESTMENT POLICY, BALANCING NATIONAL ECONOMY

Moscow EKONOMIKA I MATEMATICHESKIYE METODY in Russian No 5, Sep-Oct 82  
pp 776-783

[Article by A.F. Andreyev, Moscow]

[Text] In resolving one of the primary tasks of present economic development--boosting of the level of balance of national economic plans--an important place is occupied by improvement of capital construction. In the periodical press attention is chiefly focused on measures for increasing the accountability of construction organizations for the end results of their work. Together with this, it is necessary to analyze the relationship of the most important indicators of investment policy.<sup>1</sup>

In our opinion, the question of planned scale of capital construction at the present time is central to investment policy. Naturally, a more significant volume of capital investment contributes to the solution of a number of additional problems of the country's economic and social development. But the size of funds that can be allotted to the national economy for each period is limited by the size of real accumulation and the present level of use of production resources and the possibilities of changing it. Moreover, under certain conditions, accelerated growth of capital investment can result in negative social and economic consequences. For example, with limited labor resources, expansion of the construction program through a larger number of facilities being simultaneously built with labor-intensive technology would in the near future intensify the pressure on labor balance.

In this article, the question of scale of capital construction and the possibilities of its expansion will be examined in a most general form while utilizing the most elementary means of formal analysis of a number of consolidated indicators.

A characteristic feature of recent development of the national economy is slowing down of growth of capital investment. The rate of its increase during the

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1. By way of formulation of the question.

5th Five-Year Plan was 89.5 percent, during the 6th--87.0 percent, during the 7th--44.9 percent, during the 8th--42.9 percent, during the 9th--41.7 percent and during the 10th 28.6 percent (1). At the same time, during 1950-1975 it markedly exceeded the growth of other generalizing indicators of public production development (gross product, national income and others). For example, the annual volume of capital investment in the national economy increased 8.8-fold during this period and produced national income--7.1-fold (1).

The accelerated development of capital construction took place at the time

to the 5th, the relation of growth of produced national income to the amount of capital investment for the corresponding years was reduced 2.3-fold (1). To a certain extent, the more rapid growth rate of capital investment could compensate partially its reduced effectiveness and thus stabilize economic growth during a falling return through an increase of its amount. But this did not take place.

As a rule, expansion of capital construction requires additional material and labor resources, the basic source of which in the case of a gradual growth of capital-investment volume is to be found in the results of current functioning of public production. The additional need for manpower in construction and in related sectors can be satisfied through increased labor productivity as well as through natural growth of labor resources.

Accelerated growth of investment programs may be achieved with material resources, principally through planned redistribution of the surplus product in the interest of accumulation. But this possibility is limited. In the 30-year period to 1980, the share of accumulation in the national income in some years was at quite low levels--from 23 to 29.5 percent and in the great majority of cases was concentrated in the range of 25 to 28 percent (1, 2). Availability to public production of additional labor resources may be achieved only with the help of redistribution among sectors as well as through bringing in workers from among those engaged in domestic and subsidiary work. The high level of employment of the able-bodied population limits these sources.

The orientation toward more rapid growth of the volume of capital investment over an extended time under conditions of its reduced yield exerted a certain influence (from the point of view of balance of the public "income" and its "expenditures") on the country's economic and social development.

For evaluation of the "income" let us use annual data on produced national income and amortization deductions going into the renovation of fixed production capital and the figures of "expenditures" for corresponding information on the volume of gross capital investment in the national economy and retail goods turnover of state cooperative and kolkhoz trade. Of course, the data on goods turnover and capital investment reflect only a part of the volume of "expenditures" of society on economic development and consumption. They do not include such elements of the "expenditures" as growth of working capital, stocks, reserves, consumer services, passenger-transport services and the like. But the share of the considered constituents is sufficiently high and shows a tendency for growth: in 1950 it amounted to 68.8 percent of the adopted

estimate of the "income" and in 1980 already 82.3 percent (see Table). Within the framework of the conducted analysis, the use of the said data is perfectly permissible. Their comparison shows, for example, that the present practice of planning and reporting does not exclude the possibility of formation of an "income" with no material backing or obtaining of revenue from production output sold in the end only after its estimation and that the necessary correspondence does not exist between funds for renovation and resources allocated for this and so forth.

The dynamics of "income" and "expenditures" are shown in Figure 1; moreover, if they are equal to each other, the graph line will coincide with the straight line OA emanating from the start of the coordinates at an angle of  $45^\circ$ . In case of an initial noncoincidence of "income" and "expenditures" and retention of this position at the former level, the graph line will be parallel to the line OA. If the actual dynamics deviate to below OA, this means an increase of the "income" without a corresponding growth of "expenditures."

It can be seen from Figure 1 that growth of the discrepancy between "expenditures" and "income" existed for a long time in the country's economy. The individual deviations are to be explained primarily by a fluctuation in the level of production of agricultural products. From 1950 to 1980, the size of this discrepancy grew from 23.5 to 88.6 billion rubles (see Table). A similar tendency was to be found for certain components of the "income" and the "expenditures."

The monetary income of the population corresponds with the volume of goods turnover in "expenditures," the basic part of which forms the wage fund in the national economy. According to data of the USSR Central Statistical Administration, the volume of retail goods turnover of state and cooperative trade, for example, during 1960-1980 increased 2.3-fold and the wage fund in the national economy--2.6-fold (1).<sup>1</sup>

Capital investment under "income" corresponds to funds from which it can be financed. For an analysis of the changes in the relationship between them during 1950-1980, we shall make use of the graph method described above. Let us select two cases. In the first, "income" will express data on the amount of monetary accumulations of the national economy excluding profit, turnover tax and other accumulations (aside from kolkhozes) and in the second case--national economic profit obtained by enterprises and organizations. For an estimate of "expenditures" use was made in both instances of data on the volume of capital investment for the years of the studied period (the first case is shown in Figure 2 by curve 1 and the second by curve 2).

It is natural for the analysis of the said relationships based on such information to be largely conditional inasmuch as the funds allocated for the financing of capital investment are not directly compared with their utilized volume.

1. The problem of advancing growth of the population's monetary income over the growth of its goods availability has an independent significance. It is being widely discussed at the present time in the periodical press (see, for example, (3)). In the given article this question is referred to because of its close connection to other sides of the country's economic development.

Table. Dynamics of Generalizing Indicators of Economic Development and their Correlations During 1950-1980, billions of rubles

Indicators	Years										
	1950	1955	1960	1965	1970	1975	1976	1977	1978	1979	1980
Gross social product, in actual prices	138.0 <sup>1</sup>	195.0 <sup>1</sup>	303.8	420.2	643.5	862.6	903.9	949.6	995.7	1,032.4	1072.3
Derived national income, in actual prices	74.0	98.5	145.0	193.5	289.9	362.8	385.7	405.6	426.3	440.6	458.5
Amortization deductions for renovation of fixed capital (without municipal services)	0.8	1.9	3.6	9.1	14.1	28.1	30.7	33.3	36.0	39.2	41.5
Capital investment, total <sup>2</sup>	10.4	18.6	34.0	48.7	82.0	114.9	118.0	122.3	129.7	130.6	133.5
Total volume of goods turnover of state, cooperative and kolkhoz trade	40.9	55.8 <sup>1</sup>	82.3	108.5	159.4	215.6	225.9	236.4	247.8	260.7	277.9
Total amount of capital investment and goods turnover	51.3	74.4	116.3	157.2	241.4	330.5	343.9	358.7	377.5	391.3	411.4
Relation of capital investment to gross social product, %	7.5	9.5	11.2	11.6	12.7	13.3	13.1	12.9	13.1	12.7	12.5
Monetary accumulations of national economy (except kolkhozes)	27.1	41.8 <sup>1</sup>	65.2	83.3	139.7	176.2	189.3	196.0	208.5	213.1	234.1
Profit of enterprises and economic organizations	5.2	12.6	25.2	37.0	87.0	104.5	106.4	110.3	114.3	114.1	116.0

1. The data presented here and in the text are taken from (1); the figures marked <sup>1</sup> were computed through the use of share and other correlations.

2. Information on volume of capital investment is shown either as an estimate of pertinent years or as an estimate based on reference books closest to them.



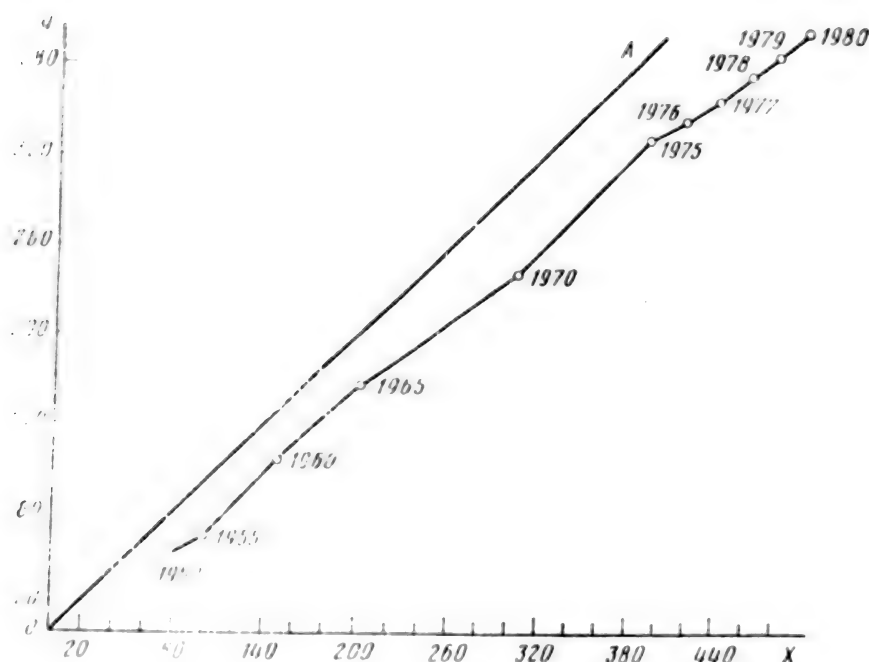


Figure 1. X--"Income," billions of rubles, Y-- "Expenditures," billions of rubles.

But for the national economy as a whole, monetary accumulations, particularly profit, are most important elements of the state's financial resources, providing among other things for the financing of centralized and noncentralized capital investment. For example, the total amount of deductions from profit and the turnover tax in 1950 was 65.3 percent, in 1960--64.9 percent, in 1970--66.1 percent and in 1980--60.8 percent of the revenue portion of the state budget (1).

In Figure 2, curve 3 also shows the interrelation between capital investment and the sum of monetary accumulations of the national economy and amortization for the renovation of fixed production capital. The dynamics of amortization deductions is stable and does not change the character of the interrelations registered by curves 1 and 2, for which reason we shall subsequently restrict ourselves solely to the examination of these two cases.

Curve 1 in Figure 2 shows that during 1950-1980 a steady increase took place in the difference between the size of monetary accumulations of the national economy and capital-investment volume. Monetary accumulations are a basic part of society's net income, but their growth for a number of reasons may not correspond to the process of expanded reproduction in the physical aspect. For example, an excessive deduction of funds (of profit, amortization deductions and others) from sectors of the national economy going into the state budget upsets the normal operation of economic units; revenue receipts from

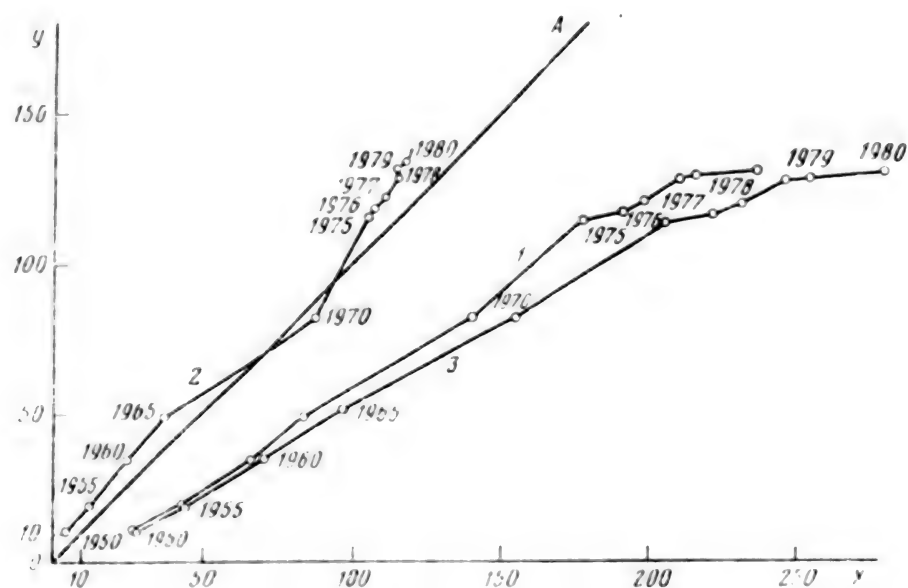


Figure 2. X--"Income" (monetary accumulations of national economy, billions of rubles--curve 1, profit--curve 2, monetary accumulations and amortization, billions of rubles--curve 3). Y--"Expenditures" (capital investment), billions of rubles.

the turnover tax take place "automatically" in the transfer of taxed goods wholesale to retail regardless of the fact and time of their sale. The practice has developed of adding bonuses for the fulfillment of corrected plans for production output and so on (4). Moreover, the actual fact of obtaining a profit still does not guarantee success in physical turnover. In particular, profit, there may be profit from the manufacture of products that do not fully meet the requirements of the consumer thanks to prices which do not correspond to consumer quality, because of credit for shipped products, without any relation to the quality of their manufacture and so forth (4). Such profit in turn may give rise to additional solvent demand both for consumer goods and for investment resources.

It should also be pointed out that during 1950-1975 there took place as it were mobilization of the national economy's monetary accumulations in the interest of capital construction. In 1950, the volume of capital investment amounted to only 38.4 percent of the size of monetary accumulations, in 1955--44.5 percent, in 1960--52.1 percent, in 1965--58.5 percent, in 1970--58.7 percent and in 1975--65.2 percent. During 1976-1978, it was stabilized at the 62.0-percent level and by 1980 it had dropped to 57.0 percent.

The presented data are of special interest in connection with the behavior of curve 2 in Figure 2. During 1950-1965, the size of profit obtained by enterprises and organizations in the national economy significantly increased (by

more than sevenfold with a growth of gross social product of approximately three fold). The role of profit as a source of monetary accumulations increased correspondingly. In 1950, its share in them amounted to 19.2 percent, in 1965 to 44.4 percent (see Table). But as shown by curve 2 in Figure 2, during 1950-1965 growth of the need for funds required for financing of capital investment did not correspond to growth of profit. This disparity increased and was compensated by capital construction through other sources of state revenue.

After 1965, the situation changed. By 1970, the size of profit even exceeded the amount of fund needed for the financing of capital investment. As we know during this period the role of noncentralized financing of capital construction significantly increased. Funds allocated for specific installations are not being fully utilized. The dynamics of unfinished construction and startup of fixed capital . . . deteriorating. Thus, while in the 6th Five-Year Plan compared to the 5th the volume of unfinished construction practically did not change (for the last years--without kolkhozes), in the 7th compared to the 6th, it increased 1.3-fold and in the 8th compared to the 7th--2.9-fold. During the same periods, startup of fixed capital in the country grew correspondingly--1.9-fold, 1.5-fold and 1.4-fold (1).

After 1970, again as during 1950-1965, there was noted an advance in the volume of capital investment in the national economy over the size of profit, but this time for other reasons. Whereas during 1950-1965, the gap between them increased together with the accelerated growth of profit, after 1970, profit growth slowed down significantly. The gross social product during 1970-1980 increased even faster than profit: the share of profit in monetary accumulations of the national economy dropped from 62.3 percent in 1970 to 49.6 percent in 1980.

Thus, together with greater mobilization of monetary accumulations of the national economy in capital construction during 1950-1980 the respective relation of the ways of their formation changed. Prior to 1965, despite growth of the share of profit, the basic source was the turnover tax; during 1965-1970 it was profit; after 1970, the significance of profit again decreased.

On the whole, as shown by the cited correlations of capital investment and size of monetary accumulations and profit during 1950-1980, disparity increased between the amount of funds allocated for financing of capital construction and the size of utilized capital investment. During 1950-1975, an accelerated growth took place of demand for construction work in regard to the possibilities of construction organizations and its provision of material-technical resources. Capital-construction plans became more taxing and an increasingly greater part of the resources of the gross social product were diverted for their realization. This is shown by the dynamics of the relation of the volume of capital investment to the size of the gross product of the national economy. During 1950-1975, it showed a stable tendency for growth and increased from 7.5 to 13.3 percent (see Table). Calculations on the data of reporting intersectorial balances of production and distribution of the social product also confirm this. For example, such calculations for 1966 and 1972 showed that the size of full material outlays required for the production of annual capital investment in the country (as a part of the end product) exceeded the growth

of the aggregate product in these years respectively 4.4- and 5.9-fold, and taking into consideration annual lag (while taking into account production growth for 1967 and 1973)--2.6- and 3.5-fold (5). Such a situation to a large extent contributed to the dissipation of allocated resources, the creation of a situation where realization of plans of capital construction in terms of cost proceeded in parallel with the nonfulfillment of plans for turnover of specific facilities, the startup of production capacities and the like. The existing defects in capital construction itself only intensified these processes.

During 1976-1980, growth of the scale of capital construction slowed down both the correlation between the volume of capital investment and the gross social product by 1980 dropped to 12.5 percent (see Table). During these years, the rate of growth of the derived national income was higher than the growth of capital investment in the national economy (except for 1978). But some of the tendencies in the economy examined above essentially remained (see curves 1 and 2 in Figure 2), including an inadequate balance between "income" and "expenditures."

In particular, the expansion of the scale of capital construction produced a growth of additional need in the number of employed in construction itself, in sectors providing construction with material-technical resources and also in the results of creation of new workplaces in the production and nonproduction spheres of the economy. But this was not in accord with the natural growth of labor resources in the country (see, for example, (6)) and to a certain extent the need for them was covered through an influx of workers from rural localities, which at the same time increased demand for consumer goods and services. Moreover, shortage of manpower for a number of reasons raises the level of wages and monetary revenues without a corresponding increase in production output and improvement of its quality. A return to extensive growth of capital investment in the national economy with consideration of the existing inability to satisfy demand for consumer goods and the existing demographic situation would intensify these processes.

As has already been said, during the 10th Five-Year Plan, growth of capital investment was slowed down somewhat and a policy was adopted of intensification of the process of expanded reproduction, which provided certain results, but the situation in regard to capital construction still remains unfavorable. In particular growth of unfinished construction continues. One of the chief reasons for such a negative happening is lack of provision of the construction program with material and labor resources. There is also taking place a rise in lack of availability of labor resources for fixed capital that has become operational (see, for example, (7, 8))

It is evidently necessary to examine the question of further reduction in the immediate future of the growth rate of capital-investment volume. It is necessary to restrict its growth by the size of real accumulation while keeping in mind the attainment of a strict correspondence between the designated front of work and all types of resources and capacities of construction-installation and planning organizations. Much long-term work is required for creation of conditions for intensification of the process of expanded reproduction. Only

on this basis would it be possible to count on getting additional resources for the solution of pressing problems relating to the development of the economy and its branches. The basic direction in current investment policy should be improvement in the use of allocated resources, more valid apportionment of them along directions and for sectors, reduction of the number of newly started construction projects and preservation of a number of already started ones. A most immediate task on this plane is bringing the construction program into conformity with the possibilities of construction organizations operating in specific economic regions of our country.

In the final analysis, the consequence of such an approach to the development of the national economy will be a change in the correlation between accumulation and use in the national income in favor of the latter. An analysis conducted, for example, in (2) shows that such an orientation in the development of the Soviet economy has had a favorable effect on the growth of public labor productivity.

At the same time, it is necessary to provide consumer benefits for the population's income through the use of additional capital investment from other sectors of industry and the national economy. Thus the highest relative share of capital investment going into group B in its volume as a whole for the national economy occurred in the 2nd Five-Year Plan (6.8 percent). In the years of the Great Patriotic War, it dropped to 3.4 percent. In the 4th, 5th, 6th, 7th, 8th and 9th Five-Year Plans, it was, respectively: 5.2, 4.5, 5.3, 4.8, 5.3 and 4.8 percent and in the 10th only 4.3 percent (1).

The rise in the level of the material covering of the population's income will exert a direct influence on boosting the effectiveness of economic levers of management of production at all levels of economic construction. For this reason the allocation of capital investment to pertinent sectors of the production and nonproduction spheres should be considered as a mediated investment group A. The urgency of an all-out rise in the level of production of consumer goods and services in the immediate future was emphasized in a decree of the CPSU Central Committee and the USSR Council of Ministers (9).

It goes without saying that we have not exhausted the complex of measures relating to the solution of the problem of material and financial balancing of the national economy while examining its investment aspect in general form. Its further concretization will require conducting a detailed quantitative analysis.

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CSO: 1820/8

## INVESTMENT, PRICES, BUDGET AND FINANCE

### METHODOLOGY, DISCUSSION OF WHOLESALE PRICE FORMATION FOR EQUIPMENT

#### Methodology Detailed

Moscow EKONOMICHESKAYA GAZETA in Russian No 6, Feb 83 pp 11-14

[Unattributed article: "Prices for New Products: Procedure for Determining Wholesale Prices and Net Product Rates for New Machinery, Equipment and Production and Technical-End Instruments" As Approved by the Decree of the USSR State Committee for Prices on 7 December 1982, No 920]

#### [Text] 1. General Provisions

1.1. The present procedure which has been worked out with the participation of the USSR Gosplan, the USSR Ministry of Finances, the USSR State Committee for Science and Technology [GKNT] and the USSR State Committee for Inventions and Discoveries is aimed at ensuring the fullest reflection of the socially necessary labor expenditures in prices, taking into account the technical and economic indicators and consumer properties of the products, increasing the incentive role of prices in accelerating scientific and technical progress, renewing and improving product quality, reducing prices per unit of end useful effect and thereby contributing to a further improvement in price formation as a major tool in carrying out the economic policy of the CPSU.

The main direction for improving price formation is to encourage the output of highly efficient new technology which provides a reduction in product costs by saving the material and labor resources and thereby increasing production profitability.

1.2. The procedure is to be employed for new and modernized production- and technical-end serially produced machine building products\* manufactured under new normative and technical documents as well as for large and special-order machines, special production equipment and elements for enterprises under construction and reconstruction which are produced according to individual orders.

1.3. Price formation for the new machine building products should ensure:

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\*Hereafter--new products.



1.3.1. A stronger economic interest on the part of the design and engineering organizations and manufacturing enterprises as well as the clients for creating and rapidly introducing into the national economy highly efficient new products which, in terms of their parameters, meet the best domestic and foreign models.

1.3.2. A relative reduction in the cost of new products for the consumer calculated per unit of end useful effect in comparison with the previously developed. By end useful effect of a new product one understands an improvement in its basic consumer qualities (productivity, power, durability, reliability and so forth) which as an aggregate are manifested in cost terms in the economic effect.

1.3.3. A reduction in material and labor intensiveness and hence the costs of machine building products with the maintaining or improving of their technical and economic parameters.

1.3.4. The establishing of economically sound price ratios for new and previously developed analogous or functionally similar products.

1.3.5. An improvement in the indicators for the cost accounting operations of the enterprises (associations) in fulfilling the plan quotas for the output of new products and economic contracts for their deliveries in the set product range. An increased incentive role for the incentive additions to the wholesale prices for new highly efficient products.

1.3.6. Strengthening the relationship with standardization based upon the simultaneous elaboration and introduction of the normative and technical documents and the prices and the fuller consideration in the standards and technical conditions of the consumer (operating) indicators of the new products (including the indicators of material and energy intensiveness and so forth) needed for assessing the product's technical level, economic efficiency as well as for working out the prices.

1.4. Determining the wholesale prices and the amount of the economic effect for the new machine building products is carried out in all stages of designing the products from working out the technical and economic feasibility studies and technical specifications for designing up to the point of commencing series production.

1.4.1. In the stages of working out the technical and economic feasibility study, the technical specifications and the technical plans, calculations should be provided for the following:

- a) A limit price which ensures a relative reduction in the cost of the new product per unit of end useful effect;
- b) The economic effect from the production and use of the new product (calculated considering the limit price).

1.4.2. In the stage of working out the working documents from the results of carrying out the acceptance testing and the accepting of the prototype (prototype batch) the following are to be determined:

- a) The draft wholesale price (temporary or permanent);
- b) The economic effect from the production and use of the new product (calculated considering the draft wholesale price);
- c) The incentive addition to the wholesale price.

1.5. Wholesale prices for new products are set proceeding from the economically sound (normed) expenditures considering the technical level, quality and economic effectiveness. The methodological particular features of forming the prices depend upon the nature of interchangeability and the degree of newness for the articles to be put into production and in accord with which the new product is divided into the following basic groups:

1.5.1. Articles having an analog and designed to replace previously developed products. New and previously developed articles are considered interchangeable if the same demands are satisfied in employing them in the basic spheres of use.

1.5.2. Articles which in terms of their design are a development of a certain parametric series and differ from these in individual technical and economic parameters.

1.5.3. Fundamentally new articles which are being developed for the first time in the USSR and do not have analogs among the produced products.

1.6. For the economic encouragement of the development and output of highly efficient new articles which in their parameters meet the finest domestic and foreign models, incentive additions are set for the wholesale prices and these are differentiated depending upon the economic effectiveness and the national economic importance of the individual types of machine building products. Discounts on the wholesale prices are employed for obsolete machine building products the technical and economic indicators of which do not meet modern needs.

1.7. For new machine building products the costs of which are lowered as a result of a savings of all types of productive resources and which in terms of their technical and economic parameters and quality meet or surpass the previously produced products, additional incentive measures may be employed.

1.8. The consumer (operational) and social indicators of the new products accounted for in price formation should be stipulated in the normative and technical documents.

If individual improved consumer (operational) and social indicators for the new products are lacking in the normative and technical documents for previously developed products, then in setting the prices a comparison is made for such indicators using the results of the testing carried out in the established procedure or following the data of operating the previously developed equipment as confirmed by document by the client.

1.9. Simultaneously with the setting of wholesale prices for new products, the net product rates are calculated according to the unified costing materials.

1.10. The leaders of the enterprises (associations) bear responsibility for the economic soundness of the draft prices being worked out and for the reliability of the calculations of the economic effect, the costing and other materials submitted for setting the prices.

1.11. With the approval of the current procedure, on the basis of the unified methodological principles and considering the specific features of price formation for the sectors (subsectors), the ministries (departments) are to work out and, with the approval of the appropriate price formation bodies, put into effect sectorial supplements to the procedure for product groups when these organizations are the head ones in production.

The standard demands for the sectorial supplements are given in Appendix 2.

1.12. The wholesale prices for new types of materials are set considering the principles and methods provided in the current procedure.

## 2. Calculating the Limit Prices and Economic Effect in Developing New Products

2.1. Limit prices are set for the stages of designing new equipment in the aim of assessing the economic and social advisability of developing a new product with the set technical and economic parameters, for limiting an increase in expenditures on producing the product and for ensuring a relative reduction per unit of end useful effect.

2.1.1. In developing a product, the client submits an order with the initial demands and the technical and economic feasibility study on the basis of which the developer of the technical specifications together with the proposed manufacturer determine the level of the limit price and the amount of the economic effect.

2.1.2. The soundness of the calculations for the limit price and the economic effect is tested by the developer together with the client and according to these results a decision is made on the level of the limit price and the amount of the economic effect to be incorporated in the technical specifications.

2.1.3. In the event of the absence of the new product's client in the stage of the technical specifications, the limit price and the amount of the economic effect determined by the organization which is the developer of the technical specifications together with the proposed manufacturer are approved by the basic consumer of this product in the stage of the technical plans.

2.2. The limit price for the new product is calculated from the formula:

$$P_l = C + R_n, \quad (1)$$

where  $C$ --the costs by the stages of designing;  
 $R_n$ --the normed profit.

2.2.1. The amount of expenditures on production (costs) for the product are clarified in moving from the initial to the subsequent development stages.

Considering the increased volume and greater reliability of the initial information, the following are determined:

- a) The preliminary level of expenditures in the stages of the technical specifications, technical proposal and conceptual design;
- b) The normed cost on the basis of the production standards being worked out for the material and labor expenditures in the stages of the technical design and the elaboration of the working documents.

2.2.2. For assessing the preliminary level of costs it is possible to employ the following:

- a) The proportional indicators for material and labor expenditures, consolidated standards and norms for expenditures by product groups (types);
- b) The established formulas for the dependence of costs on a change in parameters for analogous articles;
- c) An aggregate method with a high level of standardization for the new product.

2.2.3. Normed profit is determined on the basis of the profitability rates approved for the corresponding product groups in relation to costs minus the cost of the utilized raw products, fuel, energy, materials, semifinished products and preassembled articles.

2.2.4. With the impossibility of isolating material expenditures in costs in the initial stages of working out a new product, the profit calculations are made proceeding from the structure of expenditures on analogous products for utilizing the set profitability norm for full costs. In the subsequent designing stages, the amount of profit is recalculated on the basis of the adjusted level and structure of the new product's costs and the approved profitability rate in relation to the costs minus the material expenditures.

2.3. The calculation of the economic effect for the new product is made in accord with the Procedure (Basic Provisions) for Determining the Economic Effectiveness of Utilizing New Equipment, Inventions and Rationalization Proposals in the National Economy as approved by the Decree of the USSR GKNT, the USSR Gosplan, the USSR Academy of Sciences and the USSR State Committee for Inventions and Discoveries of 17 February 1977, No 48/16/13/3 and by the sectorial procedures worked out for its development.

2.3.1. In calculating the economic effect of a unit of new product using formulas 4 and 5 of the designated Procedure, in the place of the calculated expenditures for the base article ( $Z_1$ ), one utilizes the current wholesale price ( $P_b$ ), and for the new article ( $Z_2$ ) the limit price ( $P_1$ ).

2.3.2. In adjusting the limit prices for the individual stages of designing the new equipment, correspondingly the calculations for the economic effect from producing and utilizing the new product are adjusted.

2.4. The economic soundness of the level of the limit prices which ensure a reduction in the consumer's expenditures per unit of end useful effect is verified by comparing these with the current prices for the base articles considering the changes in the technical, economic and social parameters.

2.4.1. For the end extended-use machine building product which has independent purpose and replaces a previously developed product, the following formulas are employed:

a) For products with improved indicators for productivity (power, capacity) and durability,

$$\frac{P_1}{P_b \cdot \frac{B_2}{B_1} \cdot \frac{\frac{1}{T_1} + E_n}{\frac{1}{T_2} + E_n}} \leq 0.85 \quad (2)$$

b) For products with improved basic technical and economic parameters providing a savings in the operating outlays by the consumer,

$$\frac{P_1}{P_b \cdot \frac{B_2}{B_1} \cdot \frac{\frac{1}{T_1} + E_n}{\frac{1}{T_2} + E_n} + \frac{W_1 - W_2}{\frac{1}{T_2} + E_n}} \leq 0.85 \quad (3)$$

c) For articles where a change in their aggregate of parameters is expressed by a compound quality indicator,

$$\frac{P_1}{P_b \cdot I_q} \leq 0.85 \quad (4)$$

where  $\frac{B_2}{B_1}$  --coefficient considering increase in productivity of a unit of the new article in comparison with the base;

$B_1$  and  $B_2$  --Annual volumes of product (work) produced in utilizing a unit, respectively, of the base and new articles in physical units (determined in accord with point 2.5.3.);

$\frac{\frac{1}{T_1} + E_n}{\frac{1}{T_2} + E_n}$  --coefficient considering change in the service life of the new article in comparison with the base;

$T_1$  and  $T_2$  --service lives, respectively, of base and new articles considering obsolescence (determined in accord with point 2.5.4.);

$W_1$  and  $W_2$ --annual operating outlays of consumer in using the base and new articles calculated for the annual volume of product (work) produced using the new product (determined in accord with point 2.5.5.);

$E_n$ --normed efficiency factor (0.15);

$I_q$ --compound quality indicator;

0.9, 0.85--coefficients for the relative reduction in the cost of the new product guaranteeing a reduction in the limit prices per unit of end useful effect (when necessary these can be adjusted in the sectorial supplements).

2.4.2. For new products which are assembled from component units and where the economic effect from their use is realized only in the end product, the test calculation for the soundness of the limit price ( $P_{lc}$ ) is made considering the change in the technical and economic parameters of the end product using the formula:

$$\frac{P_{lc}}{P_{bc} + \left( \frac{W_1 - W_2}{\frac{1}{T_2} + E_n} \right) \cdot Y_d} > 1.0 \quad (5)$$

where  $P_{bc}$ --the price of the base preassembled article;

$W_1$  and  $W_2$ --annual operating outlays calculated for the end product in utilizing in it, respectively, the base and new preassembled articles;

$Y_d$ --coefficient reflecting the effect of the change in the parameters of the reassembled articles on the annual operating outlays of the end product.

In the sectorial supplements, considering the specific features of the pre-assembled articles, other formulas can also be given.

2.4.3. The exceeding of the coefficients for the relative reduction in costs, when disclosed in verifying the soundness of the limit price level for the new product using formulas 2, 3, 4 and 5 of the current Procedure, shows an insufficient reduction in expenditures per unit of end useful effect and a product with such expenditures should not be designed. In instances when it is essential to put such equipment into production, an additional economic feasibility study should be submitted for the expenditure level and a required registration made for the limit price of the new equipment with the bodies approving the prices.

2.4.4. If for a new product with improved technical and economic parameters, the limit price is below or equal to the price of the base product, then a verification of the soundness of its level in accord with points 2.4.1. and 2.4.2. is not carried out.

2.5. In verifying the economic soundness of a limit price for new products:

2.5.1. As the base product one uses a progressive one which is the best of the products developed by domestic industry and having, as a rule, a fixed wholesale price.

If the new domestic product is designed to replace an imported one, then as the price for the base product ( $P_b$ ) one uses the billed cost shown on the bill of the foreign supplier.

In instances when there are different prices for the manufacturer and consumer, the price for the manufacturer is considered as the price of the base product.

2.5.2. With extended periods for developing a new product, the wholesale price for the base product should correspond to the conditions of the calculated year for beginning production of the new product. For this the cost of the base item is adjusted using formula 6 and the normed profit is added to the adjusted cost ( $C^1_b$ ).

$$C^1_b = C_b \frac{100}{100 + D \cdot T}, \quad (6)$$

where  $C_b$ --the cost of the base item according to the plan of the year in which the limit price is calculated;

$C^1_b$ --the expected cost of the base item in the first year of series production of the new item;

$D$ --the average annual rate of decline in the cost of the base item depending upon the duration and series run in producing the product as set in the sectorial supplements. In the instance of the lack of the given indicators, in the calculations they employ the average annual decrease rates for the cost of analogous groups of product;

$T$ --the period of time (in years) from the start of designing the new product to the first year of series output.

2.5.3. The annual volumes of work to be performed ( $B_2, B_1$ ) should be calculated considering the possible use of the guaranteed productivity, the available working time, and the indicators for the reliability of the new and base products.

2.5.4. The service lives ( $T_2, T_1$ ) of the new and base articles are set in accord with the service lives approved in the sectorial supplements until obsolescence.

2.5.5. The annual operating expenditures of the consumer ( $W_2, W_1$ ) are determined proceeding from the direct expenditures and the outlays on the maintenance and operation of the equipment, that is, with the exception of the shop, general plant and extraproduction expenditures.



The amount of the annual savings for the consumer from the use of the new product is calculated for each variable expenditure item on the basis of the established standards for the consumption of material and labor resources:

- a) The savings from the reduction in the expenditure of raw products, materials, fuel and energy resources is determined on the basis of the indicators provided in the normative and technical documents;
- b) In determining the savings for wages related to the use of automatic manipulators with programmed control (industrial robots), the use of equipment for regions of the Far North and also in all instances of providing a real savings with an absolute release of workers, payments from the material incentive funds are additionally considered amounting to 40 percent of the wage fund;
- c) The change in the total amortization is partially reflected only in the expenditures on major overhauls. Amortization deductions for renovation are not included in the calculating of the annual savings.

2.5.6. The savings in operating expenditures for the consumer are calculated for the service life of the new product considering obsolescence and in the absence of this over a service life until the first major overhaul.

2.5.7. The methods for calculating the social factor (safety factor, reduction in vibration, noise level, the easing of working conditions and the impact on the environment) are given in the sectorial supplements, proceeding from the specific features of the concrete product groups.

In instances when they are only improving the social parameters of a new product as stipulated in the normative and technical documents (with an affirmative ruling by the AUCCTU, the central sectorial trade union organizations and Gosgortekhnadzor [State Mine Safety Inspectorate]), but the results of the improvements made are not reflected in the amount of the economic effect, the formula is employed as follows:

$$P_1 \leq P_b + P_s, \quad (7)$$

where  $P_s$ --the economically justified expenditures on improving the social parameters of the new article with the addition of normed profitability for the given product group.

2.5.8. If the new product is supplied with an additional set of devices and this expands the production possibilities for its use as well as an additional set of spare parts, the expenditures on these supplies should be added to the wholesale prices for the base machines, equipment and instruments.

The cost of an additional set of spare parts and attachments is determined as the total of the prices and in the event of an absence of prices, as the total expenditures on producing these spare parts and attachments with the addition of a normed profitability.

2.6. In verifying the economic soundness of the limit price of the set (system) of machines:

- a) As the price of the base article ( $P_b$ ) one employs the total cost of the machines and equipment being replaced by the new set (system) of machines;
- b) The technical and economic parameters of the basic equipment are taken into account when these determine the indicators for the operation of the complex (system) as a whole.

In the event of calculating the limit prices for the individual machines and equipment comprising the complex (system), the changes in the technical and economic indicators are determined only within the limits of the indicators for the operation of the entire complex (system) as a whole.

2.7. The setting of the limit prices for new products of a parametric series is carried out as follows:

2.7.1. For new models (makes, types or sizes) of articles in a parametric series differing from the previously developed products in individual technical and economic parameters (capacity, productivity, power and so forth), the limit prices are set considering the dependence existing within the limits of the given parametric series for costs (prices) upon the change in the parameters in using the methods given in Appendix 1.

2.7.2. For a product of a new parametric series, the calculating of the level and soundness of the limit prices is carried out for the first representatives using formulas 1-7. For the remaining articles of the new parametric series the limit prices are calculated in accord with point 2.7.1.

2.7.3. If the new products are to be used to replace previously developed products and at the same time are part of a parametric series, the limit prices are set in accord with point 2.7.1. and in addition are verified using formulas 2-7.

2.8. For fundamentally new products which are being developed in the USSR for the first time, the verification of the soundness of the limit prices using formulas 2-5 is made by employing a product of the same functional purpose or an analogous imported product employed as the base. Here the price for the base product is determined in accord with points 2.5.1. and 2.5.2.

2.9. The limit price and the amount of the economic effect in the stage of technical designing are fixed on the Informational Chart for Calculating the Economic Effectiveness and Prices for New Products and this is an appendix to the normative and technical documents.

### 3. Wholesale Prices for New Products

3.1. Wholesale prices for new products are approved for a standard optimum period for the replacement of a product as set by the USSR Gosplan and the USSR GKNT after making the decision to put the product into production and register the normative and technical documents. The putting of the wholesale prices, standards and technical conditions into effect is carried out simultaneously.

3.1.1. In approving wholesale prices for new products, the following are varied:

- a) The soundness of the level of planned costs;
- b) The corresponding of the wholesale price level to the limit price;
- c) The economic effectiveness of the new product proceeding from the draft wholesale price and the correct selection of the base product on the basis of the technical specifications, the technical level and quality chart and the codes of the National Product Classifier;
- d) The corresponding of the level of the planned price for the new product to the overall price system for the group of analogous articles. Also made are a calculation and additional comparison of the proportional values of the prices per unit of the basic technical and economic parameters for the new and previously developed products.

3.1.2. The wholesale price for the new product should be set, as a rule, not higher than the limit price level as given in the Information Chart for Calculating Economic Effectiveness and Prices.

In instances where it is advisable to encourage the predominant output of a new high-quality product, it is possible for the wholesale price to exceed the limit price by the amount of additional profit in comparison with the normed under the condition of ensuring the economic effectiveness of the new product.

3.1.3. In calculating the economic effect per unit of a new product, in accord with the "Procedure (Basic Provisions) for Determining the Economic Effectiveness of Utilizing New Equipment, Inventions and Rationalization Proposals in the National Economy," according to formulas 4 and 5, in the stage of approving the wholesale price, instead of the calculated expenditures for the base item ( $Z_1$ ), one uses the current wholesale price or the wholesale price adjusted in accord with point 2.5.2. ( $P_b$ ) and for a new product, the draft wholesale price ( $P_n$ ).

3.1.4. In the aim of ensuring promptness in approving wholesale prices for spare parts, replaceable assemblies and pieces used in operating new machine building products, simultaneously with working out wholesale prices for the machinery and equipment, wholesale prices are to be set for the spare parts.

3.2. Wholesale prices for a new product are formed on the basis of the socially necessary expenditures for its production and should provide for the ensuring of non-loss conditions for normally operating manufacturing associations (enterprises). The initial base for the wholesale price ( $P_n$ ) is the sectorial cost reflecting the socially necessary conditions for the production of the new product and the normed profit:

$$P_n = C + R_n, \quad (8)$$

where  $C$ --costs of new article;

$R_n$ --normed profit.

3.3. The costs used as the base of the wholesale price reflect the planned expenditures for the first year of series product output. Here the expenditures for preparing and starting up production of the new product should be recovered within the established procedure from the funds of the Unified Scientific and Technical Development Fund. For the major types of new products, the amounts of increased expenditures which go to prepare for and start production and can be recovered from the Unified Scientific and Technical Development Fund can be stated in the price lists.

3.3.1. In determining the planned cost of a new product, the following quotas set for the enterprises (production associations) are considered:

- a) For the saving of metal and other materials, for increasing their use factors and reducing the consumption rates, for using rolled metals differentiated for the basic strength characteristics and cheaper substitutes;
- b) For reducing product labor intensiveness and for improving the production methods, the organization of production and management;
- c) For improving the use of fixed and working capital.

3.3.2. The material and labor expenditures for a new product are calculated proceeding from technically sound standards.

For assessing the material expenditures, indicators are employed for the proportional material intensiveness (metal intensiveness) provided in the standards, technical conditions and technical level and quality charts. Here the new weight (mass) of a new product in breaking down the material expenditures should not exceed the indicator given in the normative and technical documents.

3.3.3. In instances when the new product is manufactured simultaneously by several enterprises, the sectorial cost used as the base for the wholesale price is calculated without considering the expenditures at the technically backward enterprises which are to be reconstructed. The cost of the product produced at new enterprises (shops) is determined proceeding from their reached designed capacity.

3.4. For machines and equipment with an extended production cycle, the cost is calculated for units (assemblies) which are complete independent structures, if these are delivered separately in accord with the normative and technical documents. Here the cost of the units (assemblies) should not exceed the cost of the product as a whole.

3.5. The procedure for determining and the composition of the expenditure items, as well as the methods for calculating them should correspond to the current procedural documents on the planning, calculating and costing of product costs for machine building enterprises.

3.6. The costs used as the basis for the wholesale price should not include increased expenditures which are caused by the following:

- a) By a disruption of the planned (normed) dates for developing the new product;
- b) By deviations in the actually employed technology from the designed;
- c) By above-norm expenditures of raw products, materials, fuel, electric and thermal energy;
- d) By irrational economic contracts for the deliveries of raw products, materials, preassembled articles and so forth;
- e) By deviations from the normal conditions for organizing the production process;
- f) By discrepancies from the requirements stipulated in the normative and technical documents;
- g) By the exceeding of prices for preassembled articles and purchased semi-finished products.

Note. Wholesale prices for new materials and preassembled articles used in producing the new product should be approved prior to setting the wholesale prices for this product or simultaneously with this.

3.7. In the aim of seeking out additional reserves for saving material and labor resources, for eliminating unproductive expenditures and losses and for increasing the soundness of the planned cost level for the new product, it is essential to use the methods of functional cost analysis (FCA) making it possible to select the most economic technical and organizational decisions.

3.8. The normed profit included in the wholesale prices is determined proceeding from the profitability rate in relation to costs minus material expenditures. This rate is set for the appropriate product groups and is calculated as the ratio of total profit (obtained on the basis of the sectorial profitability rate to the value of the productive capital) to product costs minus the value of the utilized raw products, materials, fuel, energy, semifinished and preassembled articles.

Deviations from the amount of normed profit in setting wholesale prices for new products are permitted in the following instances:

- a) A specific encouragement for the preferential output of individual product types;
- b) The output of new machinery and equipment ensuring a savings in material and labor expenditures for their production;
- c) Ensuring correct value relationships between the new and previously developed products as well as various types of new products having the same functional purpose.

3.9. In the aim of encouraging new, highly efficient products which in terms of their parameters meet the best domestic and foreign models (recommended or certified for the higher quality category), the profit set in accord with point 3.8. should not be lower than what has been achieved in producing the product to be replaced at the enterprise which developed the new equipment. If a new, highly efficient product is not designed to replace a previously developed one, the profitability set in approving the wholesale price should be not lower than the planned profitability set for the manufacturer enterprise for the year of developing the product.

3.10. For new products which are part of a parametric series, the wholesale prices are set in terms of the level of the current prices for previously developed products considering the established dependence of costs (prices) upon the change in the technical and economic parameters. The parametric methods for setting prices for products of a parametric series are given in Appendix 1.

3.11. For fundamentally new products of the appropriate range which is being developed for the first time in the USSR, without analogs and is to be put into series (mass) production, temporary wholesale prices are set proceeding from the planned cost of the first production year (minus expenditures on preparations and development which are to be covered from the Unified Scientific and Technical Development Fund) and the planned profitability set for the manufacturing enterprise for the first year of producing the new product, but not lower than the norm for the given product group.

The period for the temporary wholesale prices is set from 1 to 2 years depending upon the length of the period for reaching series output for the product.

The temporary wholesale prices are to be registered with the USSR Goskomsen [State Committee for Prices].

3.12. With the maintaining of quality and the constancy of the technical and economic parameters of the product (in comparison with the previously produced), with a reduction in its labor and material intensiveness in replacing regular raw products and materials with secondary raw products and production wastes and in utilizing cheap types of materials, the wholesale prices for the new product are determined on the level of the current prices for the products to be replaced.

3.13. In the event of increased durability for major assemblies (parts) of the produced machines and equipment (without a change in the normative and technical documents) and which provides a reduced need in the national economy for spare parts, replaceable sets of employed assemblies (parts) and attachments, the current wholesale prices for machinery and equipment can be revised considering the additional expenditures and the economic effectiveness of the measures carried out.

#### 4. Incentive Additions to Wholesale Prices and Reductions in Them Set Considering the Technical Level, Quality and Economic Effectiveness of Products

4.1. The decision to set an incentive addition to the wholesale price is taken on the basis of the ruling of the acceptance commission which affirms the



conformity of the product in terms of technical level, quality and economic effectiveness to the best domestic and foreign models. In the necessary instances an additional expert evaluation can be made for the technical level and quality of the product.

4.1.1. The incentive additions for a new, highly effective product which in its parameters meets the best domestic and foreign models (recommended for certification for the higher quality category) are approved simultaneously with the wholesale prices (including temporary ones) for a period up to 1 year and for products of particular complexity with an extended production and assembly cycle,\* for a period up to 2 years.

If during the designated period the product is certified for the state Quality Mark, the effect of the incentive addition (without a change in its amount) is extended for the period set for the applying of the state Quality Mark. The overall period of the wholesale price addition is set up to 4 years and for products of particular complexity up to 5 years.

4.1.2. With recertification of the product and the awarding of the state Quality Mark a second time, the incentive addition to the wholesale price is reapproved in the same amount under the condition of an improvement in the technical and economic parameters of the given product and the reflection of these in the normative and technical documents. The amount of the addition and the period of its effect are cut in half if the technical and economic parameters for the product remain unchanged.

4.1.3. The total period for the addition for a specific type of product (including recertification of the product) is set in accord with the period of the incentive addition set for the new article for the manufacturing enterprise which first developed production of the given article.

4.1.4. In instances where the enterprise is deprived of the right to apply the state Quality Mark to the product, the effect of the incentive addition to the wholesale price is halted without any special decision by the price setting bodies.

4.2. In setting the incentive addition, consideration is given to the amount of the economic effect from the production and use of the new product (E). The amount of the addition is set within limits from 0.5 to 1.25 of the profitability rate set for the given or analogous product group, but not more than 70 percent of the economic effect.

The differentiation of the incentive additions, depending upon the economic effectiveness of the new equipment, is made according to the following standard scale:

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\*The list of such products is to be worked out and approved by the manufacturing industry (department) with the approval of the client ministry (department) (basic consumer), by the head ministry (department) in producing the product as well as by the GKNT.



Ratio of economic effect and wholesale price in % $(\frac{E}{P_n} - 100)$	Amount of incentive addition in % of normed profit	
	For achieving minimum limit of interval	For each unit within interval
15-35	50	0.20
35-55	54	0.25
55-75	59	0.30
75-95	65	0.35
95-115	72	0.45
115-135	81	0.60
135-155	93	0.75
155-175	108	0.85
175 and over	125	--

Note. Considering the specific features of the sectors, changes can be made in the given standard scale for the individual product groups of the USSR Goskomsen.

4.3. In instances when it is impossible to calculate the economic effectiveness of the products which are a new model within a given parametric series or a continuation of it, the incentive additions are set in an amount (in percent of the wholesale price) as if for the first articles of this series.

4.4. If the advantages of the new product cannot be expressed in the form of an economic effect (environmental impact, safety procedures, the easing of working conditions and so forth) as well as in other justified instances, the incentive addition is set up to 30 percent of the normed profit.

4.5. The amount of the incentive additions to the wholesale price is increased in the following instances:

- a) For a new product the production of which is based upon developments recognized in the established procedure as discoveries or inventions--by 1.5-fold\*;
- b) For new integrated production lines, units and set--by 1.2-fold;
- c) For new products being manufactured to replace an imported product (purchased in freely convertible currency)--by 1.5-fold. Here the wholesale price with the incentive addition for such a product should not exceed the billed cost of the replaced article;

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\*The basis for approving an increased amount of the incentive addition is a ruling by the ministry (department) which manufactures (develops) the product approved by the ministry (department) which is the basic client on considering the inventions as the basis or basic element in a technical object. The ruling should also indicate that the given invention is being employed for the first time in the machines for such a functional purpose and for which the new product is to be used.

d) For a new product with reduced material and labor intensiveness--in accord with point 4.6.

4.6. For new products with reduced material and labor intensiveness and which in terms of its technical and economic parameters meets the best domestic and foreign models (recommended or certified for the higher quality category), the incentive addition is set in an amount up to 50 percent of the savings of the expenditures, but not more than double the profitability rate.

4.6.1. In maintaining constant technical and economic parameters in articles with reduced material and labor intensiveness and hence reduced costs, the incentive additions are to be set within the limit of the current wholesale prices for the product to be replaced.

4.6.2. If the improvement in the technical and economic parameters is accompanied by a reduction in material and labor intensiveness of the products, the amount of the incentive addition is set as the total of the additions for the effectiveness (the state Quality Mark) and the savings from reducing material and labor expenditures. The overall (total) amount of the addition cannot exceed a doubled profitability rate. Here the amount of the addition for effectiveness (the state Quality Mark) is set without considering the designated savings.

4.7. The incentive addition is set in the same amount in relation to the wholesale prices for the manufacturer and the consumer in employing two prices.

4.8. For export machine building products, the established incentive additions are employed under the condition that the wholesale price on the domestic market considering the incentive and export additions does not exceed the contract price.

4.9. For obsolete products which are to be taken out of production, wholesale price rebates are set in the established procedure.

Such obsolete products are sold to consumers at the wholesale prices without the rebates. The total rebates are transferred by the manufacturing enterprises to the income of the state budget.

## 5. The Net Product Norms for New Articles

5.1. The net product norms for new articles are determined in accord with the "Procedural Instructions on the Procedure for Working Out and Employing the Net Product (Normed) Indicator in Planning" as approved by the USSR Gosplan, the USSR Goskomtsen, the USSR Ministry of Finances, the USSR Goskomtrud [State Committee for Labor and Social Problems] and approved by the USSR TsSU [Central Statistical Administration].

5.2. The net product norm is a part of the wholesale price of an article including the wages, deductions for social security and profit.

5.2.1. The amount of wages with the deductions for social security to be incorporated in the net product norm is determined by adding the following:

a) The wages (basic and supplementary) for production workers with the deductions for social security as set in determining the wholesale price for the corresponding costing items;

b) The wages with deductions for social security of the remaining industrial and production personnel (this is determined by calculation through the  $K_3$  coefficient).

5.2.2. The  $K_3$  coefficient is defined as the ratio of the wages for the industrial-production personnel of an enterprise (association) for the servicing and management of production to the wages of the production workers.

The  $K_3$  coefficients adopted in working out the net product norms are to be maintained stable (for the range of basic and supplementary price lists put into effect on 1 January 1982).

In the instances of the organizing of new production associations on the basis of previously independent enterprises, and with a substantial change in the level of overhead due to the completion of newly built enterprises and so forth, the  $K_3$  coefficients can be revised with the approval of the price setting bodies.

5.3. The net product norms set for previously produced products can be extended to new articles which in terms of their technical and economic parameters and quality meet or surpass the previously produced ones and with the labor expenditures reduced in their production.

## 6. Determining, Approving and Coordinating the Wholesale Prices and Net Product Rates for Single-Order Products

6.1. The economic feasibility studies for the development of large and special-made machines, special production equipment and structural elements for enterprises under construction and reconstruction and manufactured according to single orders and not destined for future series production\* includes the calculating of a limit price and an economic effect in accord with section 2.

6.2. The wholesale price for single-order products is set proceeding from the planned cost and normed profitability.

6.2.1. The planned cost for single-order products is determined in accord with the current provisions related to the planning, accounting and costing of machine building products. Expenditures on designing, the preparation and development of production are considered in the cost of the corresponding article if this is manufactured in a single example or is distributed over the entire number of articles in the manufacturing of several examples.

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\*Henceforth--single-order products.

6.2.2. The profit to be included in the wholesale price for a single-order product is determined on the basis of the profitability rate provided for the corresponding product group in relation to costs minus the material expenditures. In calculating the profit, in addition to the material expenditures, the design expenditures are also excluded from the planned cost of single-order products.

For single-order products recommended or certified for the higher quality category, the amount of profit is set in accord with point 3.9.

6.3. In instances when the single-order product with an extended production cycle is delivered in units, assemblies and sections (with the presence of the appropriate technical documents for them), the wholesale prices can be set for the individual units, assemblies and pieces on the basis of their planned cost. Here the total cost of these assemblies should not exceed the limit price for the article as a whole.

6.4. For articles which are considered as single orders and produced as subsequent modifications (under the condition of an improvement in their technical and economic parameters), the limit and wholesale price as well as the amount of the economic effect are recalculated, including the effect from the additional quality improvement.

6.5. The incentive additions to the wholesale prices for highly effective single-order products recommended or certified for the higher quality category are set in accord with section 4. The conformity of the product's parameters to the best foreign and domestic models is confirmed on the basis of the procedure existing in the sector for assessing the technical level and quality of the product.

For particularly complex types of single-ordered products (point 6.3.) which are produced and delivered in individual completed units (assemblies) and pieces, the amount of the incentive addition set for the article as a whole is distributed between its individual units (assemblies) or pieces proportionately to the wholesale prices set for these. Payment for individually delivered units (assemblies) and pieces is made according to the wholesale prices with the incentive additions.

6.6. If during the period of manufacturing a single-order product there have been changes in the prices (rates) for the consumed materials, fuel, energy and preassembled goods causing an increase (or reduction) in the amount of the order, the appropriate adjustments are made in the agreed upon wholesale price with an additional agreement by the parties.

In those instances when design changes are made upon the client's request or the make-up of the article is changed, an additional payment is set on the wholesale price with the additional agreement of both the manufacturer and the client.

6.7. In setting the wholesale prices for single-order products, the net product norms are set simultaneously in accord with section 5.

6.8. For the single-order articles, the wholesale price and the net product norm are in effect for the period of carrying out the order. In the establishing of additional payments on the wholesale prices with the additional agreement of the manufacturer and client, additional payments may also be set for the net product norm (considering the wages and profit in the additional payment above the wholesale price).

6.9. In the event of a reorder (including by another client), the wholesale price, the incentive addition and the net product norm are reset. Here from the planned cost they exclude the expenditures on designing and the preparation and starting-up of production. For third and subsequent orders for the manufacturing of the given product, the wholesale prices and the net product norms are to be approved by the USSR Goskomtsen.

6.10. Wholesale prices and net product norms for tractors, turbines, generators, bulldozers, excavators, drilling platforms and semiplatforms, other drilling equipment and mining equipment for open-pit, underground and underwater methods, seagoing, lake and river self-propelled and non-self-propelled vessels, as well as equipment for nuclear power plants manufactured as a single order, regardless of the number of articles and their cost, are to be approved by the USSR Goskomtsen and for the appropriate product range by the Union republic state price committees.

6.11. The wholesale price and the net product norm for single-order articles, with the exception of those indicated in point 6.10., are approved by the manufacturing USSR ministries (departments) with the approval of the client ministries (departments) no later than 3 months prior to the start of production.

For the approval of a wholesale price a manufacturing ministry (department) forwards to the client ministry (department) the following materials:

- a) The costing materials for the given product with a breakdown of the material and labor expenditures as well as the reasons for including the development expenditures in the costs;
- b) The normative and technical documents with an informational chart for calculating the economic effectiveness and the prices, a chart for the technical level and quality, and the ministry's grounds for considering the product as a single order;
- c) Calculations for the economic effect and incentive addition;
- d) An agreement protocol\* for the wholesale price and incentive addition.

The client ministry (department) is obliged no later than a month after receiving the draft wholesale price with the required calculation materials and

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\*For large-sized single-order products, provision is made for paying for the final assembly and additional manufacturing at the client's site in the event that the product is delivered in units (assemblies).

technical documents, to state its approval of the planned price or submit valid arguments against the price. Otherwise, the price is considered approved.

6.12. Differences over the wholesale price level arising between the ministries and departments are reviewed upon request of the manufacturing ministry on the basis of the client's contesting document by the USSR Goskomtsen, the decision of which is final.

6.13. Wholesale prices for single-order articles which exceed 500,000 rubles are to be registered with the USSR Goskomtsen.

The manufacturing ministries (departments) within a 10-day period after the approval of the wholesale price and the net product norm are to submit to the USSR Goskomtsen the materials designated in point 6.11. for the registering of the approved wholesale prices.

The USSR Goskomtsen within a 2-week period reviews the materials on the wholesale prices for single-order products and takes the corresponding decision to register them or to refuse to register them (in the event of a violation of the established procedure for setting prices, an unjustified level, an arbitrary classifying of the product as single-order and so forth).

6.14. The procedure for determining, approving and ratifying the wholesale prices as envisaged in the present section is not to be extended to products manufactured under single orders where the wholesale prices for the product are set by the manufacturing enterprise with the agreement of the client enterprise.

From the moment of the ratification of the current procedure, the following are to be considered invalid:

1. "The Procedure for Determining Wholesale Prices for New Production- and Technical-End Products" as approved by the USSR Goskomtsen with the agreement of the USSR GKNT of 26 April 1974, No 10-15/960.
2. The Letter of the USSR Goskomtsen and the State Committee for Inventions and Discoveries "On Setting Incentive Additions to Wholesale Prices for New, Highly Efficient Products Which Have Been Awarded the State Quality Mark When the Production of These Products is Based on Developments Recognized in the Established Procedure as Discoveries or Inventions" of 18 July 1980, No 10-17/3136 and 25 July 1980, No 10/29-1093/43.
3. The Letter of the USSR Goskomtsen "On Price Encouragement for Reducing Material and Labor Intensiveness of New Machine Building Products" of 5 May 1981, No 10-17/1920.
4. The Letter of the USSR Goskomtsen "On Price Encouragement for Reducing Material and Labor Intensiveness of Modernized Machine Building Products" of 15 July 1981, No 10-17/2894.
5. The Instructions "On the Procedure for Setting Prices for Certified Products" as approved by the Goskomtsen under the USSR Gosplan of 8 October 1969, No 10-15/1850.

Moscow EKONOMICHESKAYA GAZETA in Russian No 6, Feb 83 p 15

[Article by N. T. Glushkov, chairman of the USSR Goskomtsen: "A Factor in Accelerating Technical Progress"]

[Text] The Chairman of the USSR Goskomtsen, N. T. Glushkov, comments on the new "Procedure for Determining Wholesale Prices and Net Product Rates for New Machinery, Equipment and Production- and Technical-End Instruments."

As is known, on 1 January 1982, in accord with the party and government decisions on improving the economic mechanism, new wholesale prices and rates were put into effect in industry. This measure was aimed, in particular, at raising the product technical level and quality.

In May 1982, the USSR Goskomtsen and Gosstandart [State Committee for Standards] established that the revision of standards, technical conditions and wholesale prices was to be carried out only in introducing new, more progressive indicators, standards and requirements or a change in the current ones with a compulsory improvement in consumer properties, a reduction in metal and energy intensiveness and an improvement in the technical level, quality and efficiency of the product.

In the aim of further strengthening the effect of wholesale prices on improving product quality, accelerating the development of new, highly efficient equipment and replacing obsolete equipment, the more rational use of production resources and a reduction in product costs, the USSR Goskomtsen with the participation of the USSR Gosplan, the USSR Ministry of Finances, the GKNT and the Goskomizobreteniy [State Committee for Inventions and Discoveries] in December 1982 approved a new procedure which is being published today in this newspaper.

What are the basic areas for further improving price formation for new equipment as envisaged in this method?

According to the previous method, the wholesale prices were formed on the basis of the production expenditures in the second-third year of series production and normed profit. The one-shot survey of machine building enterprises conducted by the USSR TsSU showed that the profitability of new equipment during the first 3 years of its output for many types of products was below the average profitability of previously developed products.

What was the reason for the decline in profitability? The problem was that the increased expenditures related to the first period of producing the product were to be recovered from the centrally held money of the unified scientific and technical development fund (YeFRNT) and not included in the wholesale price of the new equipment. Recently the incentive of the enterprises to use the money of the fund has been increased since the value of industrial-type work related to the development and introduction of new equipment is accounted for in the volume of commodity product with the adding of the normed profit. However, the amount of this fund clearly does not cover all the expenditures related to the creation and development of new equipment.



Analysis has shown that basically the YeFRNT is used for financing scientific research and experimental design work while it is utilized in insignificant amounts to compensate for the increased expenditures during the first and second years of producing the new products with these expenditures, as a rule, being included in product costs. As a consequence of this the profitability of the new products in a number of instances has been significantly lower than the previously developed products. This is why it has been necessary to review the question of the sounder utilization of this fund combined with an improvement in price formation.

The new procedure has stipulated that wholesale prices for new highly efficient products are to be determined proceeding from the planned cost of the first year of series production (with the exception of the expenditures related to the preparation and development of the product which are to be covered from the YeFRNT) and the level of planned profitability (but not lower than the normed) for the manufacturing enterprise for the year of developing the new equipment.

If the equipment is being modernized or replaced by new, then the profit used in setting the wholesale price is set in an amount not lower than the profit which would be obtained in producing the replaced or modernized product. In addition, for the most important product types, the total expenditures related to the development of new equipment with the addition of the profit to them can be fixed directly in the price lists. In this instance the wholesale prices for the new equipment and the fixed additional payments from the YeFRNT guarantee the manufacturer the recovery of the economically justified expenditures and the obtaining of the necessary profit.

Measures have also been provided for an additional encouragement for producing new equipment with reduced material and labor intensiveness. The procedure to be put into effect in 1983 provides that with a reduction in the material and labor intensiveness of a product, with a simultaneous maintaining or improving of its quality, the entire difference in cost (savings) is considered in the price for the new product as additional profit for the manufacturing enterprise.

The wholesale prices for such products are to be maintained on the price level for the replaced equipment, but for higher quality products up to 50 percent of the savings is accounted for in an incentive addition the maximum amount of which has been increased up to double the profitability rates. Of course, with the same quality, the wholesale price with the incentive addition cannot exceed the price of the base article.

Let us recall that since 1979 there has been the predominant encouraging of new, highly efficient products, where their production are based on developments recognized in the established procedure as a discovery or invention. Incentive additions increased by 1.5-fold are set for the wholesale prices for such products.

In the new method, the procedure for setting the incentive additions increased by 1.5-fold is to be extended to new, highly efficient superior quality products manufactured in place of imported products. This will increase the incentive of the design organizations for developing new equipment.

A procedure has also been set for establishing incentive additions on wholesale prices for new articles which protect the environment, improve safety methods and ease working conditions, that is, in those instances where the calculating of economic effectiveness is difficult. It has been established that in incorporating improvements of just social parameters in the design of new equipment, with the approval of the consumer, incentive additions up to 30 percent of the normed profit can be set for the wholesale prices for this equipment.

For the first time, the method includes a unified procedure for determining, approving and ratifying wholesale prices and net product norms for large and specially made machinery, special production equipment not designed for further series production, that is, for single-order products.

The measures envisaged in the method to encourage production relate to new, highly effective superior quality equipment and provide a reduction in the cost of new products for the consumer. In other words, the wholesale prices for the new equipment are set within the limits of the economic effect for the new product.

It is essential to emphasize that the adopting of the costs for the first year of series output of new equipment as the base for calculating the wholesale price does not mean that any production expenditures will be taken into account in forming prices. Provision has been made for a careful varification of costs considering the approved standards and norms and the indicators for proportional product material and labor intensiveness. Of course, unjustified expenditures related to the above-norm consumption of raw products and materials, to the violating of the planned dates for developing the new product, irrational economic contracts for product deliveries and other deviations from normal conditions of production organization cannot be taken into account in setting prices.

Prices are capable of actively influencing the development of highly efficient equipment even in the initial stages of its designing. The technical specification should include a limit price which makes it possible to determine the economic and social advisability of developing the new product.

The methodology in effect in 1969-1982 for setting limit prices had been subjected to serious criticism, since it did not prevent the design organizations from "running up" expenditures to the level of the so-called upper price limit and proper attention was not paid to designing equipment with the least expenditures.

The new method fundamentally alters the procedures for forming limit prices for new equipment. The limit prices should be set in the same manner as wholesale prices, that is, proceeding from the planned sound expenditures and profit. The amount of expenditures on production (costs) and, respectively, the limit price are adjusted as the initial information is acquired and its reliability is increased, starting from the technical specifications to the putting of the product into production.

It is also possible to adjust the limit price considering the additional expenditures aimed at raising the technical level and quality. The limit price should not "impede" the development of new equipment. Of course, here it is essential to check the limit price in the aim of reducing its level per unit of end useful effect.

The method provides for a reduction in prices per unit of end useful effect by at least 15 percent, that is, the coefficient for the relative reduction in the cost of the new product is 0.85. In essence, this is an average coefficient for a relative reduction in cost guaranteeing the consumer a reduction in the limit price per unit of end useful effect as existing over the last 5 years. This coefficient can be differentiated considering the sectorial features of the production and use of the product.

The new method for determining limit prices ensures succession in the setting of wholesale prices and monitoring the expenditure level over the stages of creating the new equipment. Even in designing it makes it possible to establish the economic effectiveness of the new equipment, the possible level of the incentive additions and the additional deductions into the economic incentive funds of the scientific research and design organizations and the enterprises manufacturing the new equipment. This is why, simultaneously with the calculating of the limit price, the national economic effectiveness which the new equipment provides should be determined.

The method outlines additional measures to increase the responsibility of both the manufacturer and the consumer of the product for the decisions taken and for the reliability of the agreed-upon economic effect. In particular, it is stated that the consumer (operational) and adjustable social indicators of the new product accounted for in price formation should be set down in the normative and technical documents and this will make it possible to monitor the actual product quality and the conformity of the calculated effect to the real.

Thus, the new method provides, in the first place, a price-based strengthening of the incentives for the design and engineering organizations and the manufacturing enterprises to create and rapidly introduce into the national economy highly efficient new products which in their parameters conform to the best domestic and foreign models and at the same time require for their production relatively fewer proportional expenditures in comparison with the previously developed products. Secondly, there are increased economic soundness of the prices and the ensuring of a relative reduction in the cost of the new product per unit of end useful effect and the providing of a stimulating role for the incentive additions in renewing the products and in increasing their technical level, quality and effectiveness.

At present the USSR Goskomtsen and the Gostandart are revising the instructions on the procedure for the coordinated revision, ratification and introduction of standards, technical conditions and prices for machine building products.

A further improvement in price formation for machine building products is of particularly important significance as this sector is a key one and technical progress depends largely upon its successful development. Precisely in machine

building we should fully realize the demands of the CPSU Central Committee and the USSR government on saving metals and other resources with a simultaneous improvement in the quality, productivity and efficiency of the equipment.

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## INVESTMENT, PRICES, BUDGET AND FINANCE

### PRICE INCREASES FOR 'SCARCE GOODS' IN SOVIET UNION

Zurich NEUE ZUERCHER ZEITUNG in German 25 Feb 83 p 15

[Article by H.K.: "Price Increases for 'Scarce Goods' in Soviet Union"]

[Text] Moscow, 23 February—4 weeks have now passed since Andropov went calling on "members of the working class" at a Moscow machine tool plant and there spoke of price increases he did not specify in detail. In the meantime, there has been no official announcement concerning the price increases surreptitiously introduced in the retail trade and the service sectors. It is not quite clear what the purpose of all this secrecy might be. On previous occasions when similar concerted actions were taken, the chairman of the state committee for price policy did not hesitate to go public. On the other hand, there were adjustments in retail prices over the past few years—most but not all of the upward variety—which were not specifically announced. In that sense, there is no way of properly comparing present practice with that during the Brezhnev era. But at least unofficially there seems to be no doubt that prices for a whole range of goods and groups of products as well as services have already increased quite substantially in some instances. The purpose seems to be to dampen demand for certain goods until now classified as scarce for which the plan apparently does not envisage correspondingly higher production quotas.

#### Nothing But Speculations

Rumors about impending measures that might affect the pocketbooks of average consumers have been making the rounds since January and speculations concerning the introduction of a motor vehicle tax—which have not come up for the first time, either—are said to have hurt the used car market in the sense that good buys do not sell as well as they did in spite of potentially high demand.

Even at this stage, it is difficult to obtain a clear picture; but a Norwegian parliamentary delegation which recently visited Moscow is said to have obtained a list of price changes introduced in February which is supposed to include some 30 goods and services. Various construction materials as well as wood and bricks are said to have risen in price by 30 to 40 percent; paints and varnishes by 60 percent and wallpaper by 15 percent. According to this unconfirmed information, the price of household machines is said to have increased by 50 percent; that of cutlery by

80 percent; that of electrical equipment by 50 percent and that of pots and pans by 20 percent. The biggest price increases were made for motorcycle spare parts (100 percent); photo articles (100 percent); music accessories (100 percent) and for notoriously scarce knitting yarn (200 percent). Phonograph records and paper goods as well as hunting rifles and ammunition rose in price by 50 percent, it is said. In foods, veal which is rarely to be had in the state stores rose by 74 percent; dry white wine by 11 percent; lemonade by 20 percent and the saline "Borshomiy" mineral water by 82 percent. Cooking gas is said to have risen by 38 kopecks per unit and bottled gas (for use in the country) by 75 kopecks. The list also includes increases in parcel postage and telephone installation charges.

#### Dearth of Information

The price increases announced in September 1981 above all concerned luxury items like alcoholic beverages, tobacco and jewelry and also included sharp rises in the price of gasoline of up to 100 percent. At that same time, there was an announcement of price reductions for certain synthetic dress materials, certain prescription drugs and watches. In the summer of 1982, for example, postage on letters abroad was increased in the absence of any official announcement. It remains unclear why the authorities failed to make an announcement this time even though the selection of goods is fairly large and the price increases, in some cases, are substantial. Perhaps this is one more indication of the general trend to limit the publication of official economic data. When he visited that plant in early February, Andropov ruled out price increases as a nonspecific means of establishing an equilibrium between the supply of goods and the pocketbooks of consumers while at the same time holding out the prospect of eliminating "well-known" distortions and inequities in the price structure. But there seems to be a conscious effort of leaving the public in the dark as to where the dividing line between the two might be.

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